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\*Burke Market Research  
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businesses, April, 1980





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PHOTO: GARY KIEFER



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PHOTO: MANUEL MONTESINO—PICTURE GROUP



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PHOTO: DAVID WALDEZ



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These business people have chosen diverse paths: rubber stamps, a resort catering to small firms, package design and hotels in the Himalayas.

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# IS CIGARETTE ADVERTISING A MAJOR REASON WHY KIDS SMOKE? NO.

Advertising is consistently ranked among the least important factors influencing college students to start smoking, according to a study by a professor of psychology who heads a prominent university research center.

That finding is typical. Because the fact is, cigarette advertising is not designed to induce people to start smoking, kids or anybody else. Its objective is to promote brand identification and brand loyalty among people who already smoke.

So why do kids start smoking? In a recent study of teenage smoking habits in which 1500 students were interviewed, the





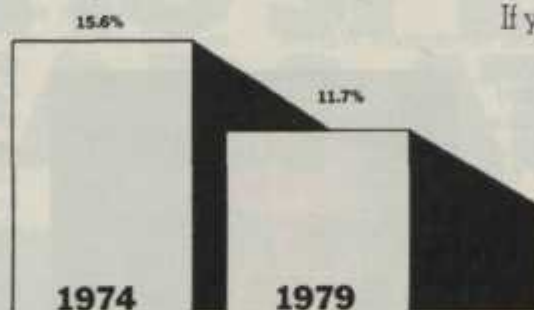
# most asked questions about cigarettes.

students themselves named peer pressure as the most important influence in the initiation of smoking.

In a statement submitted at a recent congressional hearing, a noted California psychologist said that smoking behavior is a complex behavior determined by the interaction of several influences. This expert concluded that no single factor determines smoking behavior all the time.

Whatever the reasons for smoking may be, research shows that the smoking rate among teenagers has declined in the last several years. According to an American Cancer Society report based on a Government-funded study, teenage male smoking rates have dropped by one third to the lowest level since 1964.

This study revealed that during 1974-79, the relative decrease in smoking rates among teenage males was 32 percent. Among teenage females, 17 percent. Overall (see chart), the relative decrease among teenagers was 25 percent.



The relative decrease among teenage smokers was 25 percent during 1974-79.  
Source: 1979 "Teenage Smoking" study for U.S. Department of Health and Human Services.

A more recent study conducted for a Government agency showed continuing declines among teenagers through 1981.

We think that's good. Because we think kids should not smoke. Smoking is an adult custom based on mature and informed judgment.

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We offer it in the belief that full and free discussion of this important public issue is in the public interest.



## WEIGH BOTH SIDES BEFORE YOU TAKE SIDES.



## The "Conservative" Court

**D**URING THE 16 years that Earl Warren served as Chief Justice, it was customary to speak of the Supreme Court as a "liberal" court. By the loose definitions of the day, that was fair enough. Under Warren, the Court plunged into the political thickets of reapportionment; it greatly enlarged the rights of defendants in criminal cases; it revolutionized race relations with *Brown v. Board of Education*. It is a truism that the only restraint on the Court is its own sense of self-restraint; during the Warren years that sense was not highly developed.

In May, 1969, Richard Nixon nominated Warren Earl Burger to succeed Chief Justice Warren. I was one of a handful of reporters who crowded into the Oval Office to hear Nixon candidly discuss his reasons for choosing Burger. "I happen to believe that the Constitution should be strictly interpreted," Nixon said. The President recalled some of the criminal law cases that had been decided 5 to 4 under the Warren Court. He thought that Burger, if he had been on the Court, "would have been with the four, rather than the five."

All this was heartening news to conservatives, and the following year, when Nixon nominated Harry Blackmun to succeed Abe Fortas, prospects seemed even brighter. Two years later, in 1972, Nixon named Lewis Powell to succeed Hugo Black and William Rehnquist to succeed John Marshall Harlan. It looked as if a solidly conservative majority could be mustered on most big issues. Subsequently President Ford named John Paul Stevens to the Court and President Reagan nominated Sandra Day O'Connor. At the moment, only two Democratic nominees sit on the Court—Byron White, named by Kennedy, and Thurgood Marshall, named by Johnson.

Have all these Republican nominations produced a Court as markedly conservative as the Warren Court was markedly liberal? No, indeed. If judges only stayed properly labeled—if only they did not get so happily independent once they're confirmed—the task of lawyers and reporters in predicting judicial trends would be much simplified. But Supreme Court justices never have stayed in the philosophical pigeonholes popularly assigned to them. They put on their new robes and fly where they please.

As a general proposition, yes, the Burger Court has proved to be somewhat more "conservative" than the Warren Court, but the differences are more of degree than of kind. The Burger Court certainly has not turned its back on the *Brown* case and its progeny; in a couple of key cases this "conservative" Court has blessed affirmative action. Neither have

such landmark criminal cases as *Gideon* (right to counsel) and *Miranda* (right to avoid self-incrimination) been overruled or greatly modified. As for reapportionment, in this past term we saw the Court split 5 to 4 in favor of absolute mathematical equality in forming the congressional districts of New Jersey. The decision went further in that direction than the reapportionment precedents of the Warren years.

Consider the Court's most recent term. The reputedly "conservative" Court ringingly reaffirmed the radical position on abortion it had taken in 1973. In one fell swoop, as Justice White complained, the Court nullified nearly 200 acts of Congress that contained a provision for a legislative veto. Another 5 to 4 decision struck down a historic practice of the insurance business, by which actuarial consideration was given to the longer life spans of women. In a Wyoming case, involving the retirement of a game warden, the Court drove one more nail into the coffin of the 10th Amendment; the states are now more impotent than they were before.

In an especially dismaying opinion, the Court held that non-union workers have no federal remedy against the violence of union goons. All nine justices agreed that the National Highway Traffic Safety Administration had acted arbitrarily and capriciously in suspending a regulation requiring airbags in passenger cars. In a criminal case from South Dakota, the Court set aside a life sentence that had been imposed on a six-time loser; Chief Justice Burger, dissenting, denounced the majority's view as "judicial usurpation with a vengeance."

**T**HE 1982-83 term saw 37 cases decided by 5 to 4 divisions. The more conservative justices prevailed in 20 of these, the liberals in 15; two cases saw a scramble in which no clear division could be seen. Justices O'Connor and Rehnquist disagreed 17 times; on two of these occasions O'Connor joined the liberal bloc to provide a swing vote. Justice Blackmun, who once was Burger's "Minnesota Twin," strengthened his alliance with liberals Marshall and Brennan.

It was a curious term. One day would see the Court honoring the doctrine of *stare decisis*, which calls for adherence to precedent; the next day would see *stare decisis* abandoned. On such issues as reapportionment and the legislative veto, the Court was hot for strict construction. When it came to abortion, strict construction yielded to gynecological textbooks.

The term raised few judicial landmarks; it raised some eyebrows instead. □



Justices never stay in the pigeonholes assigned to them.



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Dr. W. LEE SHEVEL  
Senior Vice President, Corporate Operations, Burroughs Corporation

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# WASHINGTON LETTER

► **UNEXPECTED STRENGTH** in economic recovery, July to September, and rising interest rates are throwing lawmakers into a quandary. Robust recovery is boosting revenues, and falling unemployment is reducing automatic spending for jobless benefits. Deficit forecasts are being pared. But rising interest rates are prompting some in Congress to talk of higher taxes, claiming they will reduce deficits and so bring down interest rates. But higher taxes will slow recovery. Congress can't have it both ways. It still avoids tough-to-make budget cuts.

► **CHANCES ARE VERY GOOD** that growth between the fourth quarter of '82 and fourth quarter of '83 will top current forecast of 5.5 percent by wide margin, if Commerce Department's "flash estimate" of third-quarter gross national product growth is above 7.5 percent. Report is due September 20. Earlier forecasts by chief White House economist Martin Feldstein have consistently been wrong. A possible mid-October revision by Council of Economic Advisers, which he chairs, could put growth at 6 percent or more, double council's January forecast of 3.1 percent.

► **CONTROLLING MONEY SUPPLY** remains key to outlook for interest rates and inflation. Federal Reserve Board is under intense pressure to bring growth in line with target range set in July. One sign is looking good: Monetary base, an indicator of future changes in the money supply, has been under control recently. If this translates into slow and steady growth in money, credit markets' fears of future inflation will abate. Then long-term interest rates for bonds, mortgages, etc., should begin

to come down. Big unknown is when Fed's summer belt-tightening will take effect.

► **A TAX BILL** will probably reach President's desk this fall. It will tighten law, raise some revenue. Treasury is mum on maximum amount in new taxes it will accept without urging presidential veto. Items most likely to be included: Changes in taxation of life insurance companies; curb on use of sale-leasebacks by units of government; limit on use of industrial revenue bonds; extension of December 31 expiration date for subsidized mortgage bonds, which help first-time home buyers get started; and revised unified investment tax credit limited to 85 percent of liability.

► **UNCERTAINTY HANGS** over adjournment date for Congress. It is scheduled to adjourn at end of October but could go until Thanksgiving or Christmas if showdown with White House over spending develops. Nine appropriations bills must be passed by October 1 start of new fiscal year. President Reagan is looking for bills to veto, and House Democrats may intentionally load up the Health and Human Services bill to force one. For its part, White House may prefer late adjournment because pressure for higher taxes may ebb if interest rates head downward late this year.

► **IF INTEREST RATES** are still rising at end of year, stage will be set for showdown between Treasury Secretary Donald T. Regan and chief administration economist Feldstein. Feldstein may try to convince President to raise taxes on theory this will cut deficits and, in turn, bring down interest rates. Regan, on the other hand, can be expected



to oppose higher taxes. He believes rising interest rates are due to excessive growth in the money supply, not budget deficits. The loser in battle between traditional-school economics and monetarism may quit government.

► A COURT VICTORY went to employers when U.S. Court of Appeals in New York ruled that unions have no standing to object to settlements between Labor Department and employers on violations of Occupational Safety and Health Act. Also halted from interfering in these settlements is Occupational Safety and Health Review Commission. Employees are barred from challenging agreed-on methods to eliminate workplace hazards.

► DECISION BY AFL-CIO to endorse one Democratic presidential candidate in October is big plus for Sen. John Glenn, though the endorsement is likely to go to former Vice President Walter Mondale. If Mondale gets AFL-CIO nod, big loser will be Sen. Alan Cranston, who has many union supporters and has ardently sought AFL-CIO's endorsement. Glenn will be left as clear runner-up. Unions are taking big gamble. If Mondale loses to Glenn at Democrats' convention in San Francisco next year, AFL-CIO will be out in the cold. But if Mondale wins, it will dominate Democratic Party.

► THE ADMINISTRATION apparently does not have enough votes in Senate Government Operations Committee to win passage of its planned reorganization of international trade functions. Committee vote is expected September 23. Lionel Olmer, Commerce under secretary for international trade, is doing most of lobbying for plan, which advocates say will improve America's export policy. Speculation is that Commerce Secretary Malcolm Baldrige is saving his powder for last-minute appeal.

► EMPLOYERS' LABOR COSTS may be affected by several pieces of legislation slated for congressional consideration this fall. Major item is continuation of 13 weeks of extended unemployment benefits, due to expire at end of this month. Re-

authorization of trade adjustment assistance, which pays workers who make finished products and lose jobs because of imports, is also due to come up for vote. Another measure would repeal 1981 reforms in unemployment compensation program. Dropping these reforms and continuing extended benefits will raise employer taxes and make adding to employment rolls more expensive.

► UPCOMING PRODUCTIVITY conference may be used by administration to air its thinking on industrial policy. About 500 leaders from business, labor, academic and financial communities are expected in Washington September 22-23 at White House Conference on Productivity. President and top government policymakers are slated to speak. Improving worker productivity is important because it is only way to increase living standards without inflation.

► FINAL REPORT of Private Sector Survey on Cost Control is slated to go to President in late November. Group's Chairman Peter Grace frets that federal spending will hit \$1.7 trillion in 1990 if recent rates of growth in U.S. budget continue unabated.

► PROPOSERS OF \$8.5 BILLION hike in U.S. contribution to International Monetary Fund (see page 76) warn battle may not be over even if House and Senate conferees pass authorization. Vote to appropriate money will be harder to win despite sweet talk by administration. Outlook is for House Democrats to try end run by including IMF bill in continuing resolution that contains spending White House opposes.

► HISPANICS MAY BECOME nation's biggest minority group within four decades, displacing blacks, say Population Reference Bureau statisticians. Projection assumes 1 million immigrants per year. Legislation pending in House and passed by Senate would cut legal immigration to 425,000 per year. Over 80 percent of legal immigration is by Hispanics and Asians.



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# "Crisis in Our Schools"

In "The Crisis in Our Schools" [July], James J. Kilpatrick touches the core of trouble in America's schools.

But he omits perhaps the biggest cause of deterioration in public education—the affirmative action orders of the federal judiciary in school desegregation suits.

The federal courts essentially made racial mixing in the classroom the first priority in public school education; quality education became a secondary purpose.

As long as the government keeps its hand on our schools, for purposes other than education, the children of today and the nation of tomorrow will suffer.

HUGH M. PATTERSON  
Baker & Botts  
Houston

There is no way that the public school system can survive as a viable teaching instrument under the heavy-handed misrule of the federal government and courts.

In an effort to improve the lives of the deprived and poorly educated as quickly as possible (which was right), standards were lowered so the gap would not be so difficult to close. That was the beginning of the demise of the public school system.

DANIEL B. HARMON, JR.  
Lake Charles, La.

Kilpatrick is undoubtedly the most optimistic man alive if he truly believes that our current education crisis can be resolved within our present public school system. We have judges double-guessing politicians over policies governing busing and prayer, bureaucrats managing the schools, and teachers who are not trained in the subjects they are teaching.

W.M. BUESCHER

Grass Roots Communications  
Pigeon Forge, Tenn.

As one of the multitude of educators who have left the profession to pursue more satisfying, not to mention lucra-

tive, occupations, I believe our nation needs to focus on how to attract and keep qualified people in education. Teachers should be hired to educate children, not baby-sit. And they should be compensated for the important responsibilities with which they are charged.

JUDY CHIM  
Systems by Mica, Inc.  
Tempe, Ariz.

From the start, the only people truly capable of lifting our public school system out of the doldrums have been parents. A child cannot be molded properly by educators, the government or business.

If we continue as we have for the past 30 or 40 years, the United States could well end up as a Third World country.

EDWIN L. AMICK  
Huntington, N.J.

We would see the quality of education begin to rise again if the authority of the teacher in the classroom were restored. Few self-respecting individuals, no matter how dedicated, will remain in the classroom to be used as rugs to be walked on by insolent teenagers.

PHILIP M. WITTIG  
Lincoln, Nebr.

The one topic Kilpatrick did not discuss is the student's subconscious motivation to learn.

We learn in order to survive. Take away the expectation of survival—through the threat of nuclear war—or the need to work to survive—through government-supported welfare—and the motivation to learn is removed.

The government gives a free education with one hand while it takes away the need to learn with the other. The world's best teacher cannot teach a kid who does not sense a need to learn. Likewise, the world's worst teacher cannot prevent him from learning if learning is important to him.

STEVEN E. BLACK  
Parks Drilling Company  
Worthington, Ohio

Send letters to Editor, NATION'S BUSINESS, 1615 H Street, N.W., Washington, D.C. 20062, and include your phone number. Letters addressed to the Editor will be considered for publication unless the writer requests otherwise, and they may be edited and condensed.

As vice chairman of the Ohio Chamber of Commerce and chairman of Ohio's Council on College Preparatory Education, I am aware that many states are still seeking answers to the remedial education problem.

I feel that Ohio has recently taken some positive steps toward solving the



# Why do people who fly for a living choose United to Cleveland?



"United has the most nonstops coming."

John Chomacki  
Co-President of Those Characters  
from Cleveland  
American Greetings Corporation

"And going."

William E. Schmitt  
Group Vice President—Marketing  
American Greetings Corporation

"Seems like one or the other of us is always flying off somewhere. And business often takes us back and forth between here and Cleveland. When it does, we fly United. They give us a choice of convenient flights that fit our schedule."

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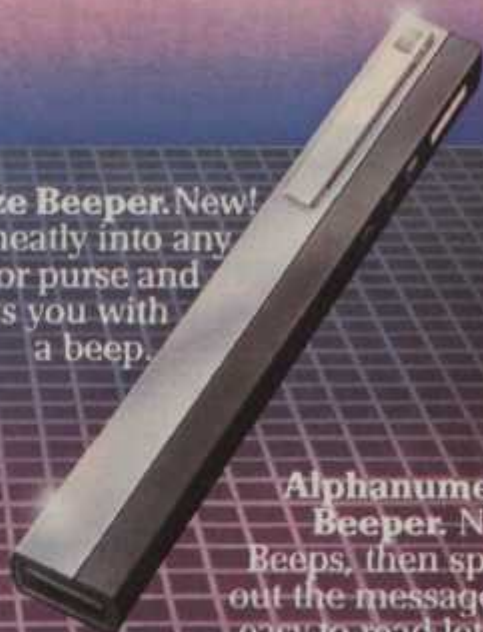


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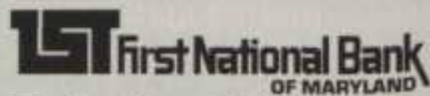
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# Open For Business Nation's Business CLASSIFIED

This issue launches a new classified section geared to executive decision makers. See page 77 for the latest in new products, services, resorts, business opportunities and more!

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**Nation's Business**

problem. I have suggested to the Ohio Chamber that we should establish a committee on education to keep business advised of the serious problems facing our educational system.

**WILLIAM H. EELLS**  
Midwest Regional Manager  
Governmental Affairs  
Ford Motor Company  
Columbus, Ohio

If we as parents expect our children to have a bright future, it is our responsibility to guide them while they are still at home. If parents sat down with their children and helped them map out their pre-adult life, we would have fewer problems with the public education system and our children would turn out to be better adults.

**MARCIA MAXWELL**  
Mountain Systems Service  
Commerce City, Colo.

## Wintering in Florida

Since May, 1981, when the great Winter Park sinkhole developed, we have been trying to decide what to do with this gaping indentation. You solved our problem.

According to the photo caption on page 24 of your August issue, the Winter Park sinkhole is now located in Winter Haven. Unfortunately, as much as we would like to relocate the sinkhole, it is still in Winter Park.

**ROGER E. PETERS**  
Executive Vice President  
Winter Park Chamber of Commerce

*Editor's Note: We apologize for having our Florida geography confused.*

## I've been there

As I read "Nine Ways To Kill Off Your Small Business" [July], I saw that we had been making many of the same mistakes the article warns against. I urge all small business owners to take this advice very seriously and follow it. I know from experience—my small business was once near the brink of bankruptcy.

**THEODORE WASHINGTON**  
Washington Products, Inc.  
Holland, Mich.

## Urban optimism

Re: "High Marks for the Economy" [Heller/Roper Small Business Barometer, July].

I thought you might want to know that large companies are just as optimistic as small business people are about the prospects for economic recovery.

In fact, the Travelers Companies are so sanguine about the small business segment of the economy that we've committed \$2 million to help develop

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F. PETER LIBASSI  
Senior Vice President  
Travelers Companies  
Hartford

### Workfare is a bargain

In response to the July Where I Stand question ["Require Work to Pay for Food Stamps?"], I think that paying food stamp recipients the minimum wage in return for work would be a bargain. To ensure that they still have enough time to look for a better paying job, let them accrue vacation time or

pay them a little more than minimum wage and allow them to work a shorter day so they still have time to job-hunt during normal business hours.

FLOYD D. CAMPBELL  
Vice President  
Interstate Printers & Publishers, Inc.  
Danville, Ill.

### Profits at any cost?

Re: "The Export Climate Is Getting Sunnier for U.S. Arms Dealers" [July].

It is unpleasant to contemplate that perhaps the Marxists are right in saying that business will stoop to any depth in search of profits.

AUBREY D. MARRON  
East Lansing, Mich.

### No bailout for the IMF

Re: Congressional Alert [July].

I am opposed to bailing out the International Monetary Fund. Where is the \$8.5 billion the IMF is asking for going to come from? Out of the taxpayer's pocket, and I for one am tired of paying for someone else's mistakes.

RON GARCEAU  
Mid-Valley Electric  
Sunnyside, Wash.

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# When Is a Loan an Investment?

By Gerald W. Padwe, C.P.A.

The 1969 Tax Reform Act gave the Treasury Department permission to issue regulations spelling out the difference between a loan to a corporation and an equity investment. The distinction tends to be important when a closely held corporation is involved, often with respect to its initial capitalization.

Interest on a loan is deductible by a corporation; dividends are not. Repayment of a loan to a shareholder-creditor is not taxable to the shareholder; if an equity investment has been made, the same "repayment" will be taxed as a dividend.

In the last 14 years Treasury and the Internal Revenue Service have grappled several times with proposed regulations defining the difference between debt and equity. The first proposal was issued 11 years after the original legislation, in March, 1980, and was widely criticized.

As a result the proposal was greatly revised and then reissued in January, 1982. The 1982 version was seen as a significant improvement, but many problems remained, and they were pointed out to IRS in written and oral comments from the public.

Treasury has been constantly changing its planned effective date for the regulations. Originally, they were to become final May 1, 1981, but that date was postponed to Jan. 1, 1982, then to July 31, 1982, and then to some unspecified date after Jan. 1, 1983. There is now an open-ended postponement of the effective date.

Taxpayers and financial consultants relied on the 1982 revisions, drawing up investment instruments that technically qualified as debt under that proposal. Even though the regulations had never taken effect, they were viewed as reflecting the official IRS and Treasury position.

To prevent such use of the proposed regulations, the Treasury Department announced in July that they were being officially withdrawn. This has cast a shadow over some new "debt" instru-

ments that would be considered equity investments under rulings and case law in effect before the 1980 proposal was made.

The difficulty in this area has proved so great that Assistant Treasury Secretary John B. Chapoton has now abandoned efforts to write comprehensive regulations.

IRS could still come up with interpretative rulings (including safe harbor guidelines) that are less detailed and less binding than regulations. Or Congress could repeal the section of the tax code broadly defining debt and equity; that would let existing case law stand.

One final possibility: If Treasury gives up the effort entirely, Congress could write stringent restrictions into some future tax bill.

## Deducting IRA Fees

Taxpayers who itemize deductions can maximize their Individual Retirement Account contributions by paying IRA administrative and trustee fees separately.

By private letter ruling, IRS has taken the position that separately paid IRA fees are deductible as expenses incurred for the production or collection of income, rather than as IRA contributions. Thus, a taxpayer would be allowed both a \$2,000 deduction for an IRA contribution and an additional itemized deduction for the separately paid fees.

The letter ruling does not address the fee deduction issue for nonitemizers. Presumably, when IRA fees are not paid separately the nonitemizer remains entitled only to a deduction equal to the full amount paid (that is, the contribution and the fees charged) up to the \$2,000 limit.

## Unitary Tax Allocations

In a 5 to 3 decision, the U.S. Supreme Court has upheld California's practice of allocating income to the state based on the worldwide income of a multinational group (including certain foreign subsidiaries) when the group operates as a "unitary" business. The Court refused to restrict the allocation to U.S.

operations only. The decision in the *Container Corporation of America* case has important state tax ramifications for businesses large and small that conduct operations both inside and outside the United States.

The allocation of income to a state is traditionally based on a three-factor formula that looks to the sales, payroll and property within a jurisdiction, compared with total sales, payroll and property in all jurisdictions. The resulting fraction is applied to taxable income to derive the portion of that income subject to the particular state's tax.

California, like some other states, interprets liberally the concept of a unitary business. Not coincidentally, that approach more often than not produces a larger allocation to those states.

For example, a firm may be achieving higher profits in a foreign country than in the United States, through use of lower-paid workers or of productive assets that cost less than here. The formula—which includes the costlier payroll and asset base of the taxing state in its numerator—will automatically allocate more income to the state if foreign operations are included.

Obviously, the formula can also allocate less income if the foreign costs are higher. But generally the worldwide approach has tended to favor a state using it.

Already several states have announced their intention of reviewing their business taxes with an eye to adopting the unitary approach. For many businesses higher state taxes are inevitable. Since those higher taxes will be deductible on federal returns, the Supreme Court has perhaps not made itself too popular with the Treasury Department, which will foot much of the bill through reduced federal corporate income tax revenues.

A sidelight: The Supreme Court recognizes the impossibility of a perfect state tax system. As the *Container Corporation* opinion points out, "Allocating income among various taxing jurisdictions bears some resemblance . . . to slicing a shadow." □

GERALD W. PADWE is national director-tax practice for Touche Ross & Co.

*Note: For Your Tax File is an information service for readers. See tax and legal advisers for guidance on all specific cases.*





**Thank you,  
Joe DeSimone.**

*Joe DeSimone, President  
Central Office Products  
New Kensington, PA.*



*Joe DeSimone, President of Central Office Products in New Kensington, PA.  
"I built a business my son was proud to join."*

**A**lmost 60 years ago, Joe DeSimone knew he wanted to be in business for himself but wasn't sure in what. A \$500 investment in some inventory in office supplies put him in the commercial stationery business. That, hard work, a lot of enthusiasm, and love for people has resulted in a successful business and a productive and happy life.

Central Office Products has its headquarters on the main street of New Kensington and two branch offices in nearby Indiana and Kittanning. There are 38 employees altogether and a

reputation for friendly service with a wide selection of office supplies, furniture and machines.

"Price competition these days is fierce," says Joe, "But I'm not about to sell at a loss. That's the way to go out of business. Let the sharpshooters sell on price and then suffer from a cash flow problem. I'll be here to service what I've sold long after they've gone out of business."

Joe DeSimone has a lot of customers who have been buying from him for years. And a lot of friends. He received the Outstanding Community Service Award in 1982 from the local Chamber of Commerce; he was President of the New Kensington Area Chamber of Commerce and of the Rotary Club and of the





*Back in the early 30's, Joe had a band called Joe DeSimone and his 10 Bachelors. He still plays weekend club dates and is President of Local 630 AFM (American Federation of Musicians).*

Y.M.C.A. "I've kept busy and I like people," says Joe.

Back in the early 60's the business looked good enough for Joe's son, Ralph, to start work with his father; despite the fact that many of his fellow graduates from the Wharton School of Business had never even heard of New Kensington.

"This is now a sophisticated business. We're getting into software; we're actually pursuing a computer line. It's fascinating. It's changing all the time and I love it," says Ralph. He should know. Although a victim of MS, his voice is likely to be the one you hear when you've got a question and he's at his desk from 8:00 AM until 5:00 PM, every day but Sunday.



*Captain Donald Hostetler, Captain in The Salvation Army gives Joe the statistics on another successful year of operation. Joe has been on the Board for ten years.*



*Three generations of the DeSimones are involved in the business. Joe and his wife, Alphretta; Ralph and his wife, Renetta and two grandsons: Joseph III (on the right) and Ralph, Jr.*

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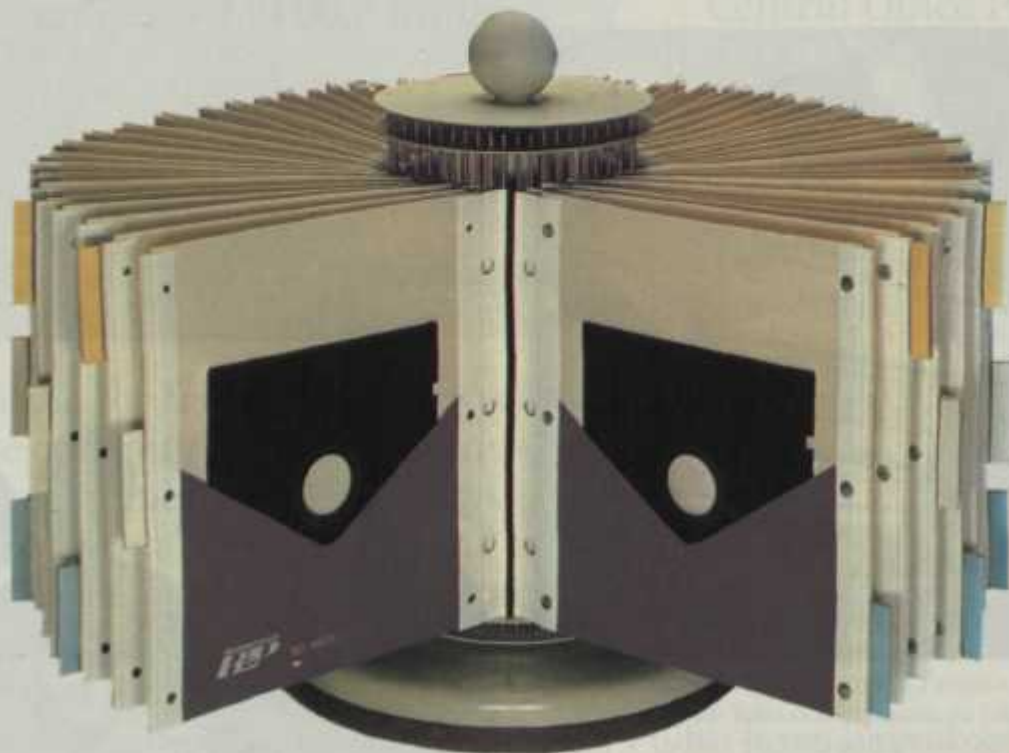
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## Interest Rate Decline Gives Rise to Profits

The rates of interest that smaller firms pay on their borrowing obviously affect their profits, but how much?

Growth Resources, Inc., a Peabody, Mass., consulting firm, has studied the question in a survey of 15,500 manufacturing and service companies with sales ranging from \$250,000 to \$30 million annually.

It reports that the companies expect after-tax profits to jump an average of more than 60 percent this year and that the drop in interest rates since mid-1982 will be responsible for nearly 25 percent of the increase.

Says R.J. Bronstein, Growth Resources president: "The average company we surveyed had gross sales of \$9.9 million and after-tax profits of \$375,000 in 1982, and it carried approximately \$1.5 million in debt. At an average interest rate of 16 percent, the cost of that debt was \$240,000 per year. With borrowing rates down more than 5 percent in 1983, that same debt costs \$157,000."

So, he points out, the reduction in cost of debt alone "contributes \$83,000 to pretax profit." He estimates that more than half of that gets to the bottom line.

The study, part of an annual officer compensation report that Growth Resources publishes, shows that sales of companies surveyed are expected to rise an average of \$1.6 million to \$11.5 million and profits to increase an average of \$221,000 to \$596,000.

The profits prediction assumes that interest rates will remain substantially the same in coming months. Growth Resources thinks that there may be a brief rise but that "the general pattern of favorable rates" will continue through the year.

It adds that highly leveraged companies expect bigger profit increases on average than those with smaller debt ratios and that those with no debt at all expect even more modest increases. Many small firms, it says, learned to operate without debt in the high interest era of recent years.

## A Course in How To Make That Bid

The Small Business Administration has a real bargain for small businesses that want to learn how to bid successfully for private or government work. It is a computer-based training program developed by the SBA and Control

Data Corporation, which operates it under contract to the SBA.

Called "Contract Bidding," the course is offered through 38 SBA district offices that have Control Data learning centers nearby. The cost of the two-hour course, announced last May as \$35, has subsequently been reduced to \$8.75 if it is taken under the SBA's auspices.

Control Data, which has more than 100 learning centers around the nation, offers the course to non-SBA clients for \$55. The SBA awarded Control Data a \$200,000 contract for 1983, and the agency plans approximately the same allocation for fiscal 1984.

Business people who take the course, which uses the Control Data PLATO technology, do not need to be computer users. Students progress at their own pace, responding to questions flashed on a computer terminal screen.

The package includes a take-home workbook that gives a wealth of information, such as how to avoid stumbling blocks that kill bids, the differences between government and private bidding, use of pricing formulas, how to prepare bid sheets and relevant contract laws and sources of information.

More than 8,000 business people have

**Control Data's William Nassif observes as Brenda Ford, who runs a small business in Washington, takes the new SBA course.**



taken the first course developed jointly by the SBA and Control Data, called "Building Your Own Business—SBA Version." George Solomon of the SBA says Control Data and the agency are working on two new courses, to be available later this year or early in 1984.

## Making It Easier To Start Exporting

To counter the conviction of many small business people that exporting is too big a game for them, the Federal Bar Association, an organization of present and former federal government lawyers, is offering free legal advice.

Under an agreement with the Small Business Administration, the FBA has started a nationwide legal assistance program for small business people who are considering exporting.

FBA's program, which got under way in mid-June, is operating through a network of bar association chapters in 25 cities. Each chapter has a coordinator and volunteer attorneys.

Interested small business people will be referred by the SBA to qualified attorneys from the FBA's international law council, who will provide an initial consultation at no cost.

The idea is to get the small business person involved in exporting and to eliminate false impressions about dangers in exporting.

Judd L. Kessler, chairperson of the council, hopes that eventually 50 chapters will be involved in the program and that other national bar associations and state and local bar groups will also participate in it.

The program, conceived by Kessler, responds to efforts by the SBA and other government agencies to expand exports by small business. As things stand, approximately 80 percent of U.S. exports come from 200 of the nation's largest firms. Kessler says this effort is to get the many thousands of capable exporters off the sidelines and into the game.

Says Paul G. Demling, FBA president: "We see this as a needed public service that lawyers can provide, as well as a way to involve and educate more lawyers in the growing international commercial arena."



## Budget Amendment: The Pressure Builds

Supporters of a constitutional amendment to limit spending and taxes say they will succeed next year in getting congressional approval. The legislatures of 38 states would have to pass such an amendment before it could become law.

The proposed amendment would make it more difficult to run up large deficits. It would require a three-fifths vote, rather than a simple majority vote, to pass appropriations bills that exceed revenue projections.

Says William Shaker of the National Tax Limitation Committee: "The real possibility that two more states will call for a constitutional convention will move Congress to act." Already 32 of the 34 states needed have petitioned for a convention.

States most likely to yet approve the convention petition include California, Washington, Michigan, Kentucky, Rhode Island and Maine.

Shaker predicts two thirds of the members of both houses of Congress will vote for the amendment, even though it fell 46 votes short last year in the House. The balanced budget amendment cleared the Senate with two votes to spare.

"Congress will be forced to act because it won't give up the prerogative of writing the amendment," Shaker adds. "Therefore, it is very unlikely a convention will actually be held."

## A Quickening Pace For Capital Goods

Businesses' orders for machinery that increases plant capacity should pick up in about six months, says Robert Ortner, the Commerce Department's chief economist.

Nine months into the recovery, investment in equipment that cuts costs and increases productivity, like computers and automation equipment, is turning in the best performance in the nondefense capital goods area.

The brightening outlook for capital goods producers, Ortner says, is due to stronger-than-expected consumer spending. This means factories will be operating closer to capacity sooner. In addition, higher profits and faster depreciation of assets (due

to the 1981 tax bill) are putting more money in the hands of corporate treasurers.

Business economists' 1984 forecasts and the capital spending budgets of product managers will set the pace for recovery in this sector. From a low point of 68 percent last fall, capacity utilization at the nation's factories is expected to hit 85 percent by mid-1984.

The capital goods sector—about 6 percent of the nation's output of goods and services—was kept afloat through the recession by fat order books for tanks, planes, ships and the like. They accounted for more than 40 percent of orders from capital goods producers.



As consumers buy more appliances and other goods, producers think of enlarging capacity.

POLITICS

## How Can the Senate Do Its Work Better?

What changes would U.S. senators undertake to make the Senate more businesslike? *NATION'S BUSINESS* recently asked the senators that question.

Sen. Barry M. Goldwater (R-Ariz.) complains there is too much legislation. He would put a limit on the number of bills a senator could introduce in a

year's time. Ten pieces of legislation per senator is probably enough, he says.

Another veteran senator, William Proxmire (D-Wis.), favors adopting a prohibition against colleagues' reciting prepared statements on the Senate floor.

Freshman Sen. Jeff Bingaman (D-N.M.) suggests the Senate needs a non-partisan "in-house management consultant system" to help new members make their way through a bewildering maze of precedents and procedures.

Former Sen. James B. Pearson (R-Kans.) suggests the Senate should not try to speed up its procedures so it could handle more legislation. "The object should be to slow down," he says, "allowing more time for deliberation and review of the more significant issues."

## The Other Side Of the Gender Gap

Republican National Chairman Frank Fahrenkopf, Jr., readily concedes that President Reagan will face a "gender gap" in a 1984 re-election campaign, especially among younger women op-

posed to certain Reagan administration policies.

But, Fahrenkopf says, the Democratic Party is facing a much more severe problem with a male gender gap.

GOP soundings in various states show that a large percentage of male voters favor the administration's fiscal policy and its defense program. At the same time, a majority of the nation's men tends to oppose the programs of the liberal Mondale-Cranston wing of the Democratic Party, the soundings show.

Fahrenkopf says that Reagan has "a problem" with women in the 21-to-40 age range. They are especially hostile because of the President's opposition to the Equal Rights Amendment.

Women who are the sole breadwinners in their families tend to believe that the administration has not supported programs that guarantee them income and job opportunities on a par with men.

Early Democratic front-runner Walter Mondale is concerned about still another gap—the "South gap" that could develop if, as expected, he receives an early endorsement by the AFL-CIO. As labor's handpicked candidate, Mondale would have a hard time overtaking Reagan in Southern states.



Ex-Sen. James Pearson sees a need for "more time for deliberation."



## Calling for a Shake-Up in a Trade Agency

If President Reagan is re-elected in 1984, look for a major shake-up inside the International Trade Administration.

A recent investigation by the President's Private Sector Survey on Cost Control has led to the suggestion that the ITA, a branch of the Commerce Department, should be reorganized to eliminate 800 bureaucratic jobs, at a saving of \$60 million over three years.

There is "a lot of wasted motion inside the ITA," charges George Bennett, a Boston management consultant who directed the probe into that agency.

Investigators found ITA field representatives aiding small manufacturers who had "little potential to export."

For instance, a New England shoe-lace company has received federal help in designing shoelaces with a soccer ball pattern, for export to South America. "Three trunks full of shoelaces would have taken care of that demand," says Bennett.

"ITA should be concentrating on high-tech exports and on small businesses in industries with a large sales potential," Bennett says. "The ITA is going from door to door to help businesses in each section of the country, rather than acting as specialists in the

modern marketplace. The guy with the shoelaces should be helped by private banks or local government, while the ITA needs to work on reducing our trade deficit of more than \$75 billion."

## The Opportunities In Rebuilding Lebanon

State Department professionals and the White House often disagree over foreign policy, but both are bullish about opportunities for U.S. business to become involved in the rebuilding of war-torn Lebanon.

Next month a presidential advisory commission will make public a report showing that American business opportunities in the rebuilding of Lebanon "are quite tremendous," according to Joyce R. Starr, executive director of the advisory group.

The commission is headed by Lewis T. Preston, chairman of the Morgan Guaranty Trust Company in New York. Its findings will show that the Canadians, French and British have the inside track on the rebuilding of highways, the telephone system and the port of Beirut. But there will be major opportunities for U.S. firms to win contracts in



Joyce Starr: Despite foreign rivals, U.S. firms can win contracts.

architectural and structural engineering and in other areas.

Starr was a Carter White House expert on Middle East economic affairs and is a foreign affairs analyst at the prestigious Center for Strategic and International Studies of Georgetown University. The center has been asked for the first time to serve as a think tank for a presidential commission.

## Accord on Grain Won't Spur Exports

The new U.S.-Soviet grain accord increases minimum yearly purchases of American wheat and corn by 50 percent and assures American farmers that the Russians will buy at least 9 million tons during each of the next five years. But recapturing the bulk of the Soviet Union's grain market is still a distant dream.

America's share of Russian grain imports dwindled from 78 percent in 1979 to 19 percent last year, when the Soviets bought 14 million tons from the United States.

Most Russian grain imports came from Canada, Argentina and Western Europe. The Soviet Union expects a bumper crop this year from its own fields, after four years of poor harvests.

During President Carter's grain embargo, imposed in response to the Soviet invasion of Afghanistan, other nations rushed forward to sell to the Russians, sometimes at bargain-basement prices.

The Agriculture Department's economic research service predicts that, despite the new U.S.-Soviet deal, Amer-

ican traders will have to overcome stiff competition from other suppliers just to match last year's grain exports to Russia.

President Reagan, who is trying to rebuild the American image as a reliable supplier, has declared that farm exports will not be used as a diplomatic tool, except in emergency situations, and also has signed a law stating that the United States cannot stop agricul-

ture exports to the Soviet Union. The Soviets have bought only 6 million tons of grain. If the United States is to regain its 1979 market share, it will have to sell another 50 million tons. That is considered unlikely.

## Drop in Food Sales Hurts Trade Balance

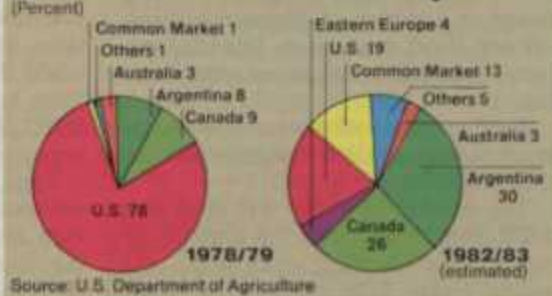
Worldwide, U.S. food sales this year are expected to show a decline of as much as 12 percent from last year's \$39.1 billion in agricultural exports. At the same time, American imports are rising at the rate of 12 percent annually and are expected to reach \$16.2 billion.

The bottom line: America's trade surplus could fall to \$18.3 billion, down from last year's \$23.7 billion, according to the U.S. Agriculture Department.

"Lagging shipments, the absence of additional Soviet purchases and weaker demand prospects for other major importers contributed to the reduction," Agriculture says. The past year has seen decreases in exports of wheat, corn, rice, soybeans, sunflower seed, meat, tobacco and cotton.

"Even if prices remain stable in the coming year," the research service predicts, "most developing countries will be less able to afford the amount of food purchased this season."

### Shares of Soviet Grain Imports



tural shipments until 270 days after an embargo has been declared.

Russia ranked third in U.S. food purchases last year, after the Common Market and Japan. But so far this year



## A Banking Bill May Break a Pattern



Sears, Roebuck Chairman Edward Telling (above) opposes halting cross-industry acquisitions of banks, as proposed by foes of a bill backed by Sen. Jake Garn.

Lately, Congress has passed major banking legislation every two years—most recently in 1982—but 1983 could be the year the schedule is speeded up.

The impetus? The Treasury's proposed Financial Institutions Holding Company Act, which would allow bank and thrift holding companies to deal in and underwrite municipal revenue bonds, sponsor and manage mutual funds, and engage in insurance underwriting and brokerage, and in real estate development and brokerage.

The reason? "The financial industry's aggressiveness in seeking opportunities to offer new services and Congress' reluctance to update the statutes and respond to market activities have resulted in an unbalanced and unfair system," says Senate Banking Committee Chairman Jake Garn (R-Utah). He is one of four cosponsors of the bill, which enjoys bipartisan support. Garn's panel may vote on the bill this fall, and the whole Senate by year's end.

In addition to expanding bank and thrift authority, the bill would define a bank as an institution that not only accepts deposits and makes commercial loans but is federally insured or eligible for that designation. This would close the "nonbank bank" loophole under which securities and insurance firms have been acquiring banks. Upset by the bill, these groups are pushing for a moratorium on any more cross-industry acquisitions so Congress will have time to study the issue carefully.

Moratorium opponents like Edward Telling, chairman of Sears, Roebuck, contend that it would only "provoke the



development of new aberrations and compel the business community to make decisions based on our best guess as to what the rules of the game will be a few years out."

### The Looming Wave Of Bank Mergers

What's in the stars for banking by 1990? Plenty, according to a study based on a survey of commercial bankers and thrift executives, financial analysts, regulators and investment bankers.

Joint sponsors of the study were the Bank Administration Institute and Arthur Andersen & Company.

The number of banks will decline to 9,600 from 15,000, with the attrition occurring mostly among small banks with assets under \$100 million, the study predicts.

Banks having more than \$1 billion in assets will grow in number by 26 percent and account for 65 percent of all industry assets by the end of this decade.

"This major industry consolidation will occur gradually and is expected to involve more than half of all the banks in merger activities either as acquirer or acquisition targets," says Arthur Andersen's Joel Friedman, a co-manager of the study.

The banks earmarked for acquisition will be those that serve statewide or regional markets and have strong retail customer bases. Nonbank acquisitions of banks will be minimal as securities firms focus more on chartering new banks or expanding existing product lines.

Success in retail deposit taking, the study indicates, will depend on high interest rates and convenient locations. Lenders of commercial loans will be successful only if they can set competitive interest rates and fees while continuing to emphasize collateral requirements, range of supporting services, length of loan maturity and prior business relationships.

The study points to a bright note: The deposit base of banks, thrifts and nonbank money market funds will grow at a 2.7 percent annual rate in 1983-86 and a 3.3 percent rate in 1987-90—meaning that credit will be more readily available.

### Controlling Risks In Foreign Lending

A fully risk-free international lending environment may be only a pipe dream, but greater stability is possible, says a Federal Reserve Board official.

Since banks worldwide will continue to be prime international lending sources, it is up to their managements to "monitor and control" more carefully a borrowing country's economic, financial, social and political risks and "pay more attention to analysts within their banks," stresses Nancy Teeters, a member of the Fed's board of governors.

She says lending banks should also be extremely wary of making loans to countries that exhibit undue concentrations of risk. This is especially true when they participate in loan syndications and there is no other direct contract or collateral business with the borrower.

Bank regulatory agencies throughout the world, Teeters says, should review their supervisory policies regarding loans to high-risk countries, and they should do so on a comprehensive basis.

But she warns that bank regulators "cannot and should not become international country-rating agencies"—that the expertise lodged at commercial banks is sufficient to measure risks.



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OUTLOOK  
A Banker's View  
**THE BOOM  
IN RISK CAPITAL**

# Ideas? The Money Is There

By Peter A. Holmes

**P**EOPLE WITH the right ideas for developing a business have unprecedented opportunities these days to obtain the money they need to get going. Investors are pouring record sums into the pool of venture capital.

Last year investors put 38 percent more money into 140-odd venture capital firms—companies that try to pick ideas and management teams that will make businesses big—than they did in 1981. The venture capital firms used that money, in turn, to nourish 866 businesses: \$700 million to help some get started and \$1.1 billion to help others grow.

And the pace is quickening. In the first half of this year, the firms farmed out another \$1.6 billion to entrepreneurs with promising ideas.

Venture capital has not always been so plentiful. At low ebb, in 1975, investors put just \$10 million in new money into venture capital firms. The money dried up because a 1969 law raised the maximum tax rate on capital gains to 49 percent and thus reduced the rewards for taking risks.

In 1978 Congress slashed the top rate on capital gains to 28 percent, and three years later the rate was cut to 20 percent for individuals. Since 1978 the venture capital pool, stagnant for most of the 1970s, has swelled more than 2½ times, to \$7.5 billion.

Some people are wondering if there are enough good ideas to match the available funds. Answers Stanley E. Pratt, editor and publisher of the monthly *Venture Capital Journal*, bible of the industry: The more money that is available, the more good ideas that will be available, too. "It is the classic case of supply producing demand," he says.

Pratt explains that the venture capital process is driven by good ideas, management talent and market opportunities. "Without the entrepreneur,"



PHOTO, LARRY KEENAN, JR.

Risk capital has helped launch biotechnology companies like Genentech, which is conducting research (above) that may lead to new forms of artificial life.

he says, "the venture capitalist is a worthless commodity."

Predictably, most ideas that catch the eyes of venture capitalists are for products or services spawned by scientific discoveries of the past quarter century. Semiconductors, genetic engineering and lasers stand out as examples of how new applications of science spawn industries.

"Venture capital opportunities today coincide with technical changes, the opportunities to create new products and the chance to develop markets for these products," observes venture capitalist Daniel J. Gregory, chairman of Boston-based Greylock Management Corporation. "The rate of change is faster than the response of many existing, established companies."

Computers and related products attracted about 45 percent of the dollars that venture capital firms distributed last year. The money went to companies making such high-tech products as mini- and microcomputers, software, and graphic systems for computer-aided design, manufacturing and engineering.

Engineering and communications products each soaked up about an eighth of last year's venture capital financing. The engineering products included semiconductors and the equipment to make them, microprocessors

and fiber optics. Investor interest in communications focused on voice and data transmission, information management, and satellite and microwave components.

Four industries each got about 6 percent of the money: health and medical services and equipment, energy, consumer products and industrial goods. The latter category includes robotics, or manufacturing systems that increase factory productivity.

Investment in biotechnology has cooled recently, with a shake-up expected among the 150 biotechnology companies that have come from nowhere in the past couple of years. Timing seems to be a problem in this promising industry, since many products are still years from yielding much cash flow for investors.

**W**HETHER MANY of the new companies that have tapped the torrent of venture capital will survive the next five years—or even the next year—is uncertain. Venture capitalists take big risks in search of big payoffs.

About one fifth of the companies backed by venture capital go out of business. An equal number remain small, privately held corporations—what Pratt calls "the living dead," companies that "make enough money to





Androbot, Inc., has been financed in part by a venture capital firm. Here, the Topo, a robot run by personal computer, moves down an Androbot production line.

PHOTO: ROGER HESSEMER

pay an annuity to the entrepreneur, but not enough to pay off the investor." Two fifths are bought out as they grow up. Only about a fifth of venture capital-backed companies achieve a goal common to most of them—success as a corporation whose stock is publicly traded.

But sometimes a venture capitalist beats those odds.

"We've been on such a roll I can't believe it," exclaims Frederick R. Adler, general managing partner of Adler & Company, a New York City-based venture capital firm. This year five Adler-backed companies have had initial public stock offerings. Investors have made big profits (Adler is close-mouthed about how big). Last year Adler's 5-year-old firm raised \$44 million, and it is seeking more this year to help finance a stable of 54 small companies.

Adler's \$150 million portfolio has been built around companies that fit this investment philosophy: "No fads, just products that cut costs, improve productivity and promise rapid growth, profitably."

Nearly two thirds of the businesses on which Adler has bet investors' and his own money are ones he has helped organize. "My personal predilection is toward start-ups rather than lower risk second- and third-stage deals." Already

a millionaire many times over, Adler says he likes "the excitement, the creativity, of building new companies. My passion is developing entrepreneurial management. We look for someone who is decisive, whose fears are rational and who doesn't look for ghosts. Ghosts can kill you."

From his 42nd story aerie on Park Avenue, Adler boasts, with justification, "My partners and I think we have a great ability to 'predict-out' people." This is an important asset in a business that requires close cooperation between the entrepreneur and the venture capitalist in strategic planning; the venture capitalist may even run the company.

Another key to success, says Greylock's Gregory, "is finding the point in the development cycle that gives rise to the big company." He says his investment decisions are based on a company's future growth potential, "so levels of risk are shed as more and more money is put into the business." Stanley Pratt puts it this way: "Venture capitalists do not invest in small companies, but, they hope, in big businesses just getting started."

Venture capitalists dole out money and advice in stages, in exchange for equity in the business, as the need for capital grows. The process can require six or more transfusions of capital, typ-

ically over a seven-year period, until the company takes its initial plunge in the stock market.

**T**HE PROCESS requires what venture capitalists call "discipline"—following a series of well-defined steps that lead to high growth.

Some venture capitalists avoid the first step, seed financing, because of the high risk involved. But it has the advantage of giving the venture capitalist a chance to pick the entrepreneurial team and set good business practices. A relatively small amount of money—last year about \$800,000 was average—is provided to the entrepreneur to help develop an idea.

Start-up financing comes next. The entrepreneur prepares a business plan, conducts market studies, establishes a board of directors and gets ready to open shop. The average financing required runs to more than \$1.5 million.

What venture capitalists call first-stage financing follows. The \$2 million typically required at this juncture may be used to start manufacturing and selling the product.

Second-stage financing provides more working capital to expand production and build inventories. Usually, the company is not yet making a profit.

Third-stage financing is used to improve the product, build working capi-



tal, and expand marketing and the production facilities.

Fourth-stage, or bridge, financing comes as much as a year before the initial public offering is expected.

Often other events get in the way of this systematic progression of raising capital and reducing risk on the way to market. Last year 40 venture capital-backed firms were acquired by other companies that preferred this route to getting into these firms' fields on their own. In some cases prices were less than \$1 million, but eight companies fetched more than \$100 million apiece.

The Wall Street bull market that began 13 months ago has been helpful to other companies that completed the financing progression. Initial public offerings by 33 businesses nurtured on venture capital raised a total of \$602 million. Altos Computer Systems, a California manufacturer of microcomputers, led with \$69 million.

Public appetite for new issues is so strong this year that Androbot, Inc., a San Jose, Calif., maker of personal robots, is going public only 23 months after getting started. It is trying to raise \$16 million or so in its initial offering. For founder Nolan K. Bushnell, Androbot is the third start-up. He previously started Atari, Inc., now part of Warner Communications, and Pizza Time Theatre, Inc.

Success breeds success, and venture capital firms are finding it easier to raise money. "Most of the big money is going to people who have been in the business for a period of time," says Robert G. Faris, president of Alan Patricoff Associates, a New York City-based venture capital firm founded in the late 1960s. It raised \$20 million last year.

New venture capital firms are investing mostly in later-stage financing of private corporations. This carries less risk and requires not as much management know-how. But the rewards are also smaller.

**I**N RECENT YEARS, employee pension funds have been at or near the top as a source of money, thanks to less restrictive Labor Department investment guidelines. Wealthy individuals and families, a traditional source of risk capital, have provided about a third of the new funds—\$290 million in 1982 and \$244 million in the first half of this year. A growing amount of capital comes from foreign investors; their

new investments rose from \$90 million in 1981 to \$245 million in the first six months of 1983. Insurance companies, university endowments, private foundations and corporations account for the rest.

Most venture capitalists are located near sources of money or are easily accessible to the firms they are financing, or, frequently, both. Not having a local venture capital firm that specializes in seed money can stunt the growth of ideas. Last year all but 20 percent of the money that investors put into venture capital went to firms located on the East Coast or the West Coast. The investor may live in West Virginia,

PHOTO: DAVID HALLER



Venture capitalist Frederick R. Adler has made big profits for investors and himself by supplying entrepreneurs with funds.

but his money probably goes to a venture capitalist in New York, Boston or the San Francisco Bay area.

The cliché is that all of the nation's new growth companies are located in the Silicon Valley or on Boston's Route 128. And, in fact, California and Massachusetts are home to more than half of the companies that attracted venture capital last year. But New York and Texas also got sizable shares of the pot. All told, nearly half of last year's new equity financing went to the West Coast, while the Northeast snagged a quarter.

A comparative venture capital drought in the rest of the nation was especially acute in the Midwest, which got less than 10 percent of the money handed out to entrepreneurs. Venture capitalists say this had less to do with state taxes than with the absence of an "infrastructure" that attracts entrepreneurs. In the vernacular of the venture capitalist, the term infrastructure encompasses engineers, physicists, accountants, bankers, lawyers and others who understand new businesses.

Entrepreneurs also attract each other. They create a culture that entices

other entrepreneurs to come out from their garage workshops or leave secure positions with existing companies.

What is important is getting enough entrepreneurs in a region, says Pratt. "Achieving a so-called 'critical mass' leads to the creation of role models that motivate the would-be entrepreneur."

**T**WO CITIES in the industrial heartland epitomize the changing attitudes of leaders who are not content to watch all of the new industries take root elsewhere. Business leaders in Cleveland and Pittsburgh are systematically trying to restore the entrepreneurial spirit present when Cleveland made more cars than Detroit, and when Pittsburgh was home to the oil business.

With help from the Richard K. Mellon Foundation, the Enterprise Corporation of Pittsburgh has been set up in conjunction with Carnegie-Mellon University and the University of Pittsburgh. "Our goal is to reach out to potential entrepreneurs, to help speed up the process of getting companies started," explains Enterprise Chairman John R. Thorne.

On the nation's North Coast, a term newly in vogue in areas bordering the Great Lakes, leaders of Cleveland's 37 largest corporations are backing an ambitious effort to create an infrastructure to support entrepreneurs.

A five-part program is under way. It is designed to expand the university-medical-corporate technology base, provide consulting services to would-be entrepreneurs, establish a seed capital fund to supplement traditional venture capital activities, improve labor-management relations and find ways to enhance the region's competitiveness. Growth industries targeted include health care, productivity-enhancing manufacturing systems and automated distribution.

A U.S. General Accounting Office study of 72 high-growth companies, backed by \$209 million in venture capital during the 1970s, illustrates the importance of venture capital to the economy. As a group, these companies have created 120,000 jobs, the GAO says. Their sales totaled \$6 billion in 1979.

Venture capitalists say the process of recapitalizing America is under way. Maintaining the pace will require much more money and many more ideas, they say, but they expect both to be in plentiful supply—as long as there are generous rewards for taking risks. □



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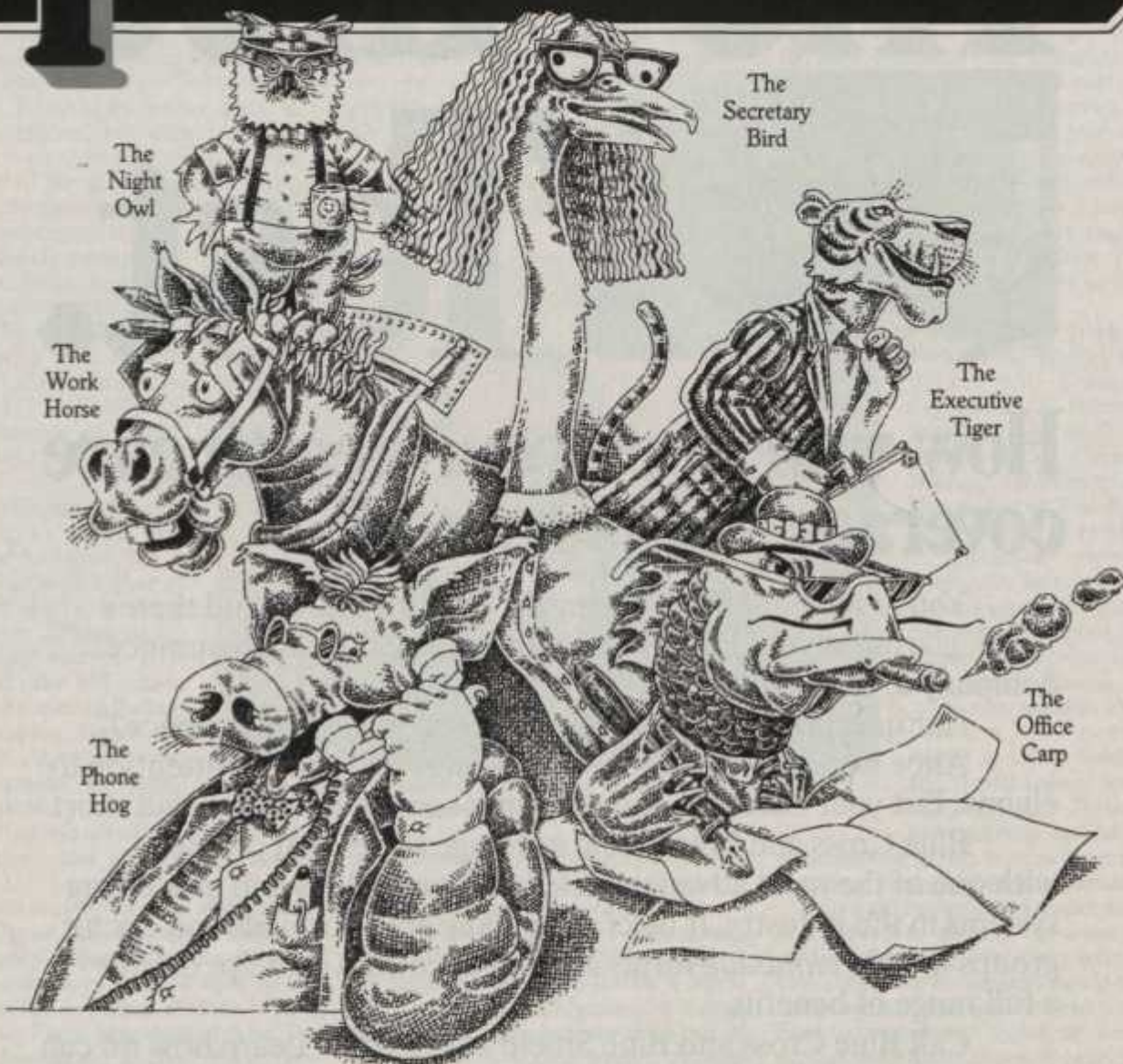
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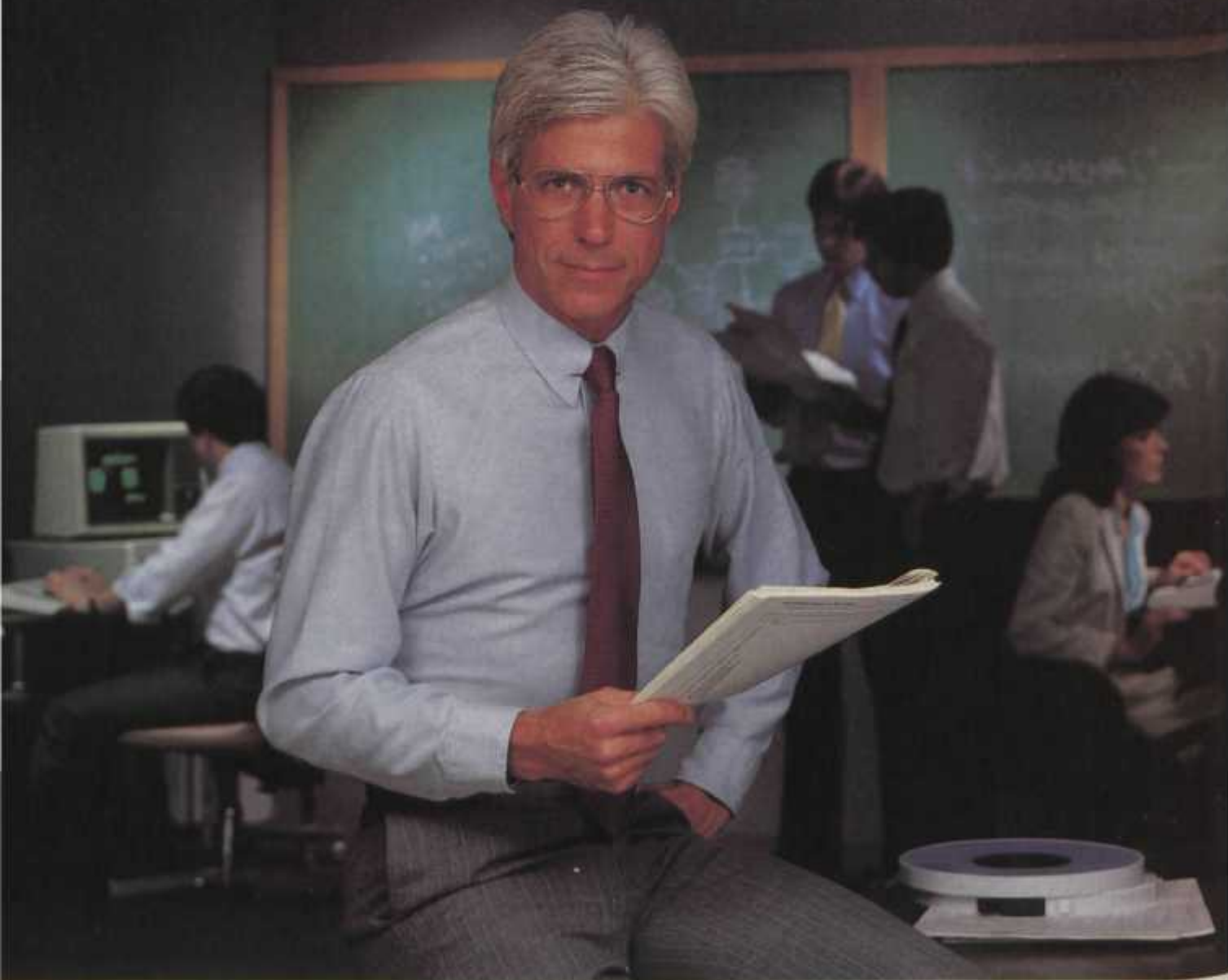
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# How To Match Money With Ideas

A guide for entrepreneurs and investors.

**F**OR THE RIGHT IDEA, venture capital is not hard to find; the problem for the entrepreneur is finding the right idea. "We see as many proposals for investments as publishers see books," says David J. Gladstone, executive vice president of Allied Capital Corporation, "and we throw away most of what we see."

A bad business plan dooms most ideas. "The business plan should be a 20- to 30-page statement that answers several questions," explains Gladstone, the author of *Venture Capital Handbook*. "First, it must say what is unique about the product; second, it must identify the market niche; and third, it must describe the management team and say how they are going to achieve what they say they are going to do." And it should provide financial projections.

Once these questions are answered, the venture capitalist decides whether the business will produce an adequate return on investment.

"Achieving a 30 percent return on investment, for example, means sales must double every year for the first couple of years," Gladstone says. So, the size of the investment depends on the size of the market and the company's potential sales.

Sometimes overlooked is the question of how the venture capitalist will eventually exit from the company—that is, convert an illiquid asset into cash. This is where an initial public offering or a leveraged buyout by employees may come into play.

All such questions aside, "the acid test is whether your future partner is honest," says Gladstone. "It is said that a little bit of larceny is good, but not in this business."

You don't need to be a millionaire to buy a stake in the venture capital boom. About a dozen venture capital companies are publicly traded (Allied Capital is one). These companies offer investors two advantages: liquidity and the ability to make a small investment.

As a group, these publicly traded companies have performed very well since the mid-1960s. An investment of \$1.50 in one venture capital company, Narragansett Capital Corporation, at

its nadir is worth more than \$50 today.

Investing in a private venture capital partnership frequently requires a minimum investment of \$25,000. The payoff may come only after 10 years, if ever.

Another important source of venture capital: subsidiaries of corporations whose main businesses are not finan-

cial. About a quarter of the money in the venture capital pool comes from companies like GEVENTCO, founded in 1968 as a subsidiary of General Electric Company. Last year it invested about \$45 million, mostly in companies in the early stages of development. The company operates as a profit center, not as an "acquisition arm" of GE, says Harry T. Rein, GEVENTCO president.

Lubrizol, a Cleveland area manufacturer of specialty chemicals used in lubricants and fuels, proceeds differently. "Our venture capital program is one aspect of a larger effort to find new markets, business opportunities and technologies for producing specialty chemicals," says Donald L. Murfin,

president of Lubrizol Enterprises. It has invested \$45 million since 1979 and owns a 14 percent share of Genentech, the biological engineering company. That share cost \$11.25 million and is worth \$85 million.

Directories of qualified venture capital firms are available from the National Venture Capital Association, 1730 N. Lynn Street, Suite 400, Arlington, Va. 22209. The association's 144 members subscribe to a code of professional standards. They agree to provide investors with complete operating and financial reports and do not accept "blind" pools of capital.

The National Association of Small Business Investment Companies, 618 Washington Building, Washington, D.C. 20005, is a trade association representing more than 375 small business investment companies. They operate under a 1958 federal law that enables SBICs to leverage private capital with government-backed loans. A list of companies is available from the association for \$1.

The American Association of Minority Enterprise Small Business Investment Companies, 915 15th Street, N.W., Suite 700, Washington, D.C. 20005, is a trade association representing 130 MESBICs. They invest in businesses owned by socially or economically disadvantaged persons. Rules that apply to MESBICs are similar to those regulating SBICs.

*Venture Capital Journal*, a monthly published by Capital Publishing Corporation, Box 348, Wellesley Hills, Mass. 02181, is an authoritative source of information about venture capital.

Capital Publishing also assists clients in finding venture capital and maintains the largest data base in the industry. It has scheduled seminars on such topics as organizing a small business and working with a venture capitalist in 12 cities over the next three months.

Gladstone's *Venture Capital Handbook* (Reston/Prentice Hall) is a how-to guide for the entrepreneur, including sections on the do's and don'ts for successfully attracting money. □

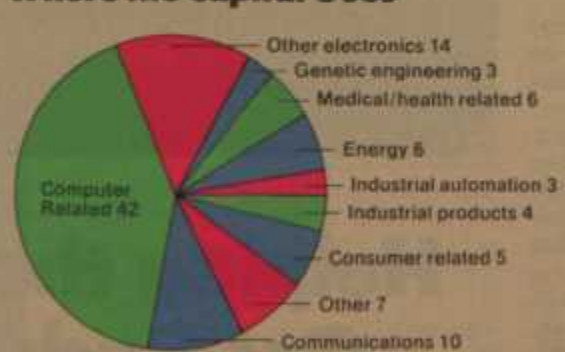
—Peter A. Holmes

## Where the Capital Comes From

(1982 percentages for independent private firms)



## Where the Capital Goes



Source: Capital Publishing Corporation

CHART: PARRIS, FRANK & COX

cial. About a quarter of the money in the venture capital pool comes from companies like GEVENTCO, founded in 1968 as a subsidiary of General Electric Company. Last year it invested about \$45 million, mostly in companies in the early stages of development. The company operates as a profit center, not as an "acquisition arm" of GE, says Harry T. Rein, GEVENTCO president.

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**T**HE INVESTIGATIONS are over, and the reports are in from the National Commission on Excellence in Education, the Task Force on Education for Economic Growth and the Business-Higher Education Forum. The consensus: America's schools are on the brink of disaster.

For the past decade, secondary schools have offered students a smorgasbord of electives while neglecting traditional academic and vocational studies. Thirty-six states require only one year of science for a high school diploma; 35 require only one year of mathematics. Foreign language requirements have fallen by the wayside.

The Business-Higher Education Forum, an organization made up of heads of companies and universities, warns: "In the next decade, 15 million new workers will enter the work force. They—and many of the 100 million currently employed—will need education, training and retraining to keep abreast of changing job needs. Yet U.S. institutions are inadequately prepared for this important challenge."

This crisis has spawned a host of recommendations, ranging from giving students solid grounding in English, math, social studies and computer sciences to setting higher academic standards for teaching candidates.

A common thread runs through the recommendations: Business must be heavily involved in improving educational quality.

North Carolina Gov. James Hunt, chairman of the Education Commission of the States' Task Force on Education for Economic Growth, says that "business people must have a voice in what is taught and how it is taught."

Frank Cary, recently retired chairman of IBM and task force cochairman, talks about business leaders' responsibility to establish partnerships with the nation's schools. He wants to see business pursue such ideas as team teaching that pairs teachers with specialists from industry, training students and teachers in the use of industrial equipment, and offering courses in factories and offices.

Mary Hatwood Futrell, president-elect of the National Education Association, calls business people "role models for children of all ages" and adds that "education and business certainly need each other." She suggests that the many schools short on math and science teachers would welcome industry personnel's coming in to teach some courses. Likewise, she says, teachers could spend the summer months working in industry and learning what employe skills the business community will need in the future.



## Helping the Schools Get Back to Work

Greater business involvement is a key to ending America's education crisis. Some programs are already paying off.

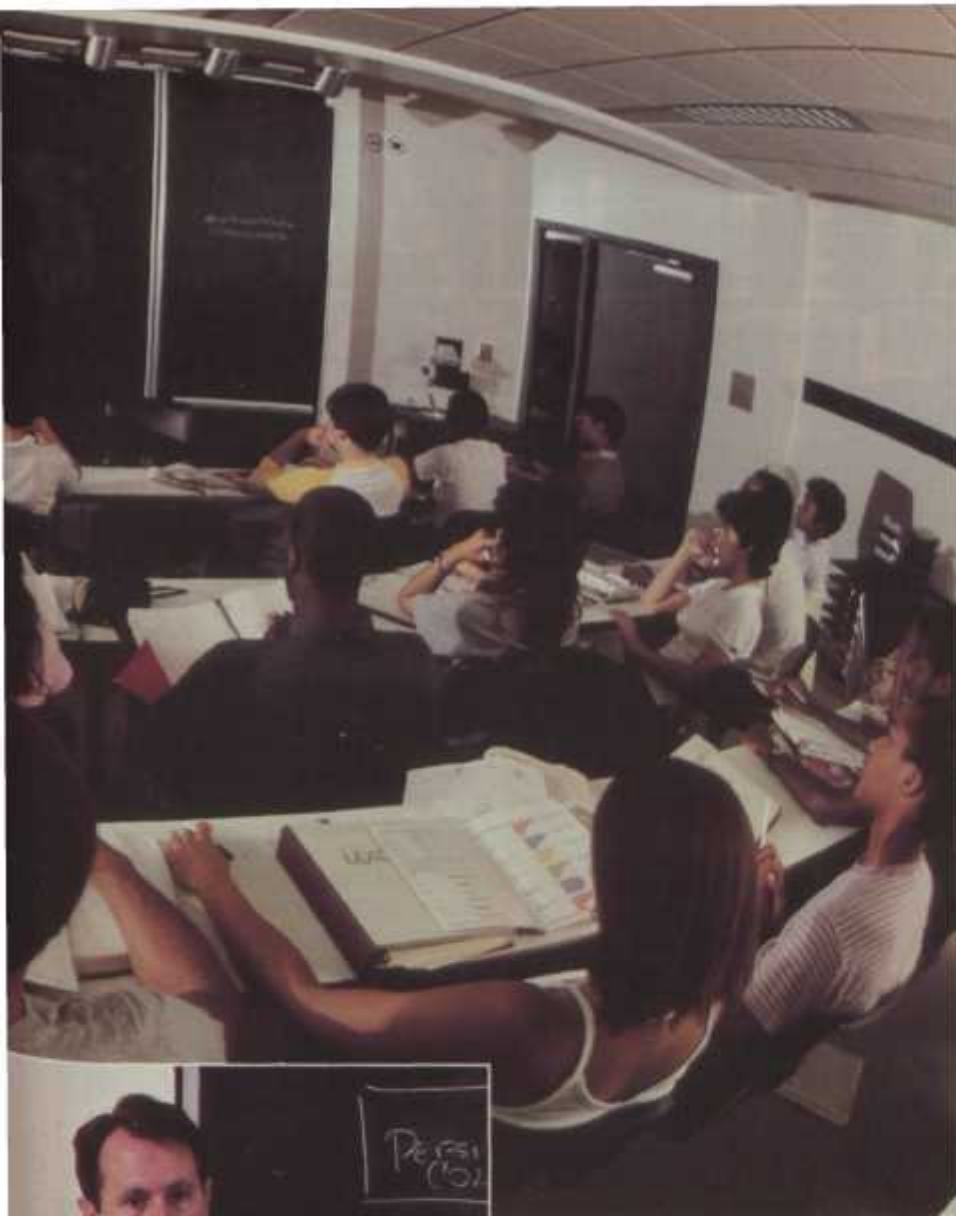
Business already is very much involved in closing the education gap. Total corporate support to 71 of the nation's key colleges and universities during the 1981-82 school year rose 37 percent over the previous year, to \$313 million, according to the Higher Education and American Philanthropy Index.

IBM recently donated \$40 million worth of computer systems to 20 universities' engineering schools.

One business effort that has flourished nationwide for the last decade is known as Adopt-A-School. That term embraces a host of local programs through which companies and other private sector institutions each provide personnel and resources to a particular elementary or high school.

James Coyne, President Reagan's special assistant for the program, says that improving the educational system





**LEAD students at the Wharton School of Finance listen to Paul Sullivan, manager of corporate personnel at PepsiCo, lecture on the mechanics of diversification.**



PHOTOS: SAL DI MARCO—BLACK STAR

company representatives visit the school, teaching math and science through classroom projects like the hypothetical installation of a neighborhood power system.

In New Orleans, over an 11-year period, more than 40 companies have sponsored programs for 29 junior and senior high schools. For example, Amoco Oil Company helped the Franklin High School science department design a geology curriculum.

In Dallas, 529 companies are providing \$3 million yearly in cash, services and materials to the 171 public schools. In addition, the Dallas Chamber of Commerce and the Dallas Independent School District support the Dallas Skyline Career Development Center, which consists of seven magnet schools. All of these schools graduate students with solid educational backgrounds focused on careers, rather than on training for specific entry-level jobs.

Tucson is gearing up for its first Adopt-A-School experience this month. Merrill Grant, the school district's superintendent, says an influx of high-tech firms into the city and the growth

in the city's minority population (now over 40 percent) spurred interest in Adopt-A-School, since many minority students are unfamiliar with the jobs available in high-tech industry.

To attract minority students into the mainstream of American industry, McNeil Consumer Products, a division of Johnson & Johnson, and the Wharton School of Finance at the University of Pennsylvania created the Leadership Education and Development Program in Business in 1980.

Through A Better Chance, Inc., a national minority talent search program, top juniors in private and public schools are selected to attend a four-week LEAD summer program at seven universities' business schools. The idea is to show them that business can be a worthwhile and exciting career.

Students are introduced to such academic disciplines as economics, management, marketing, sales and finance. Corporate executives present case studies from personal experience, direct topical discussions, serve as role models and offer career information. Field trips to corporate headquarters, where students chat with top officers, and excursions to federal offices, city halls and statehouses round out the learning experience.

Each business school has a corporate sponsor that bears most of the expense. Additionally, more than 80 major corporations contribute funds and donate personnel and facilities to the LEAD program.

**A** TYPICAL DAY for LEAD students at the Wharton School of Finance started with a lecture in basic macroeconomics and a discussion of how it applies to corporate financing.

Next on the agenda was Paul Sullivan, manager of corporate personnel at PepsiCo, Inc. He explained that the company has diversified "synergistically"—that is, one subsidiary's products complement the other's. Sullivan also touched on franchising, correct product pricing, marketing ploys, competition and advertising that is catchy but not misleading.

Sullivan was followed by Aubrey Jones, director of strategic planning at RCA Service Corporation, who discussed market assessments, product plans and pricing, and distribution plans.

The program, LEAD students say, has enlightened them about business operations, given them confidence to

is tantamount to finding new sources of capital. That, he says, is why business should jump at the chance to "adopt" schools, to give summer internships at plants, to donate literature not found in school libraries and to provide access to state-of-the-art equipment.

In Chicago, 116 schools have been adopted. At one, Michele Clark Middle School, the "parent" is Commonwealth Edison Company. Twice a week, 16



achieve whatever goals they have and shown them the value of a solid education.

Says Sonya Young of Inglewood, Calif.: "I've found that being from an ethnic minority and being a woman are not surefire qualifications for getting into business. Educational credentials are extremely important if one is going to succeed in business."

Similarly, David Yeo, of Santa Fe Springs, Calif., says, "I had thought the only business people were those born into the profession. Now I find that it's a matter of ability."

States, counties and communities are becoming aware that schools, industry and

provides employees of new or expanding companies with industry-specific training before plants open, at no cost to the firms. The program designs training materials; provides the instructional facility and pays the instructors (in most cases, company personnel who have undergone special training to improve their teaching skills). The state also recruits and tests potential employees

PHOTO: GARY KIEFFER



Students from Tucson Medical Center's "adopted" high school will learn first hand about careers in pediatric nursing and medical electronics.

government must collaborate to train a work force that can respond to global technological competition.

Massachusetts has lessened the financial burden on employers when they are training and retraining workers. The Bay State Skills Corporation, a quasi-public organization established in 1981, brings business and educational institutions into partnerships to train people with inadequate or obsolete skills. It is trying to end the "mismatch between what people are being trained to do and what the job market actually needs," says Susan K. Moulton, the corporation's executive director.

Bay State provides grants to public or nonprofit educational and training institutions, which in turn must link up with one or more growing companies to train workers for specific jobs. A key requirement: Participating companies must match the corporation's grant funds with contributions of equipment, staff time or cash. To date, more than 300 companies and 60 educational institutions have trained 4,000 workers throughout the state.

Georgia's "Quick Start" program

according to company requirements.

Last year, Orange County, Calif., opened the Technology Exchange Center to act as an information clearinghouse for area employment and training needs, as a resource center for developing and upgrading curricula, and as a broker, matching pockets of excess labor with jobs.

William Turner, the center's executive director, says it will have an enormous positive impact on small and medium-sized businesses in the county. "Most large companies can afford to have skills training programs; smaller businesses can't," he notes.

The center is not charging industry for its services, relying instead on state contracts. "We would rather have a company's equipment, which can be expensive, and have the school provide the cost of the instructor," Turner says. "Perhaps down the line, we'll charge industry a broker's fee."

Holmes & Narver, an engineering and construction firm, has benefited from the center. Its problem was the lack of qualified personnel to operate its computer-assisted design system.

The center put Holmes in contact with Rancho Santiago Community College. Holmes then helped the college develop a curriculum, which it wrote and got accredited; the college also paid the course instructors, who were Holmes managers. The company used its own equipment and facilities as a classroom-laboratory for 16 weeks. Two sessions, each lasting three hours, were held every week.

Robert Albertelli, vice president of engineering, says the company "couldn't be more pleased" with the results. It intends to repeat the course and introduce a higher-level one, and it is in the midst of formulating a curriculum in systems management for its project engineers.

**P**ARTNERSHIPS between colleges and industry—pooling talents and resources to accomplish what neither could achieve independently—are being advocated more and more.

Virginia Gov. Charles Robb recently proposed spending up to \$30 million to create a government-operated research center in Northern Virginia. It would serve as a bridge between the state's leading universities and its high-tech industries.

Georgia's Advanced Technology Development Center, based at the Georgia Institute of Technology in Atlanta, operates as an "incubator," helping fledgling technology-oriented businesses get off the ground.

The center is now home to 12 firms that are receiving low-cost manufacturing and office space, assistance in marketing and finance, identification of product markets, evaluation of new products and ideas, and help in locating sources of venture capital. A firm may be housed at the center for up to three years. One company has already "graduated"; another is expected to this month.

Jerry Birchfield, the center's director, says that it "focuses almost exclusively on taking a raw concept and a raw group of people and turning them into a functioning entity. We're not turnaround specialists; we're not expansion specialists; we're startup specialists."

He says the center receives a lot of outside volunteer help from the city's accounting companies, major financial institutions, law firms and consulting groups, which, "if you count the amount of time and personnel contributed in terms of dollars, comes to as much as \$250,000—half of our budget."

Economic and educational superiority cannot be achieved single-handedly, Birchfield emphasizes. If the states, industry and educational institutions do not collaborate, he predicts, "we're going to end up with nothing."

—Mary-Margaret Wantuck



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# Profits and Pitfalls In Defense Contracts

The Pentagon is paying \$35 billion a year to small firms and is ready to spend more—but watch the fine print.

By Henry Eason

**I**T TAKES MORE than giant aerospace companies, shipyards and munitions factories to make up the defense industry. It also takes tens of thousands of small business people like Ed Gnifkowski of Rice, Minn.

Without the few specialized valves handcrafted in what Gnifkowski calls his "glorified job shop," the Air Force's \$500 million-plus aeropropulsion systems test facility in Tullahoma, Tenn., could not function.

Without the made-to-order freight cars built in Ronald Thompson's small factory in East St. Louis, Ill., nuclear waste from the aircraft carriers and submarines that dock at Norfolk, Va., could not be carried away by rail.

Small business has become big business at the Pentagon. Last year \$35 billion of the \$102 billion the Defense Department spent on goods and services went to small firms.

An expanding military budget means greater business opportunities for many small companies whose customers have traditionally been in the private sector. Indeed, the Pentagon is actively encouraging businesses that have never had defense contracts to seek them. It hopes that the number of small firms on the Defense Department's provider rolls will grow by as much as 10 percent annually over the next three years.

"It's a vast marketplace," says Norma Leftwich, director of the Pentagon's office of small and disadvantaged business utilization.

A variety of federal laws require the Defense Department to give small firms a percentage of its business. But Donald Rellins, who is in charge of small and disadvantaged business utilization for the Air Force, says, "Even if it wasn't called for by statute, it would make good sense to do it."

"It is sometimes more economical," says Rellins, "to buy directly from a small contractor than through a large contractor. We get more efficiency, and by involving firms near bases, we get better community relations."

Major defense contracts involve hun-

Small business people like Ed Gnifkowski (below) and Ronald Thompson (right) have learned that the Pentagon is a good customer—if you remember that it means what it says.



PHOTOS: DAVID WALDEZ

dreds of subcontractors that supply everything from office supplies to engines. There are, for example, already over 5,200 contractors, subcontractors and suppliers in 37 states at work on the \$20.5 billion B-1B strategic nuclear bomber program. The total work force involved in the program will average 40,000 over the next six years.

One hundred planes will be built by four prime contractors. Rockwell International is constructing the body, General Electric the engines, Boeing the offensive weapons system and Eaton the defensive electrical equipment. But each of these four has subcontracted work to many hundreds of other firms, to provide fuses, glass, cable, paint, nails, gas, acid, bushings and thousands of other items needed in producing the planes.

**S**EVERAL MILLION contracts—no one at the Pentagon has an exact figure—are let by the Defense Department to American businesses annually. Producers of virtually any goods or services could expand their business by

selling to the Pentagon, Defense Department officials say.

"A military base is actually a small city," says Rellins. "We need people to cut the grass, repair the elevators and build housing. We rely on the private sector to do this."

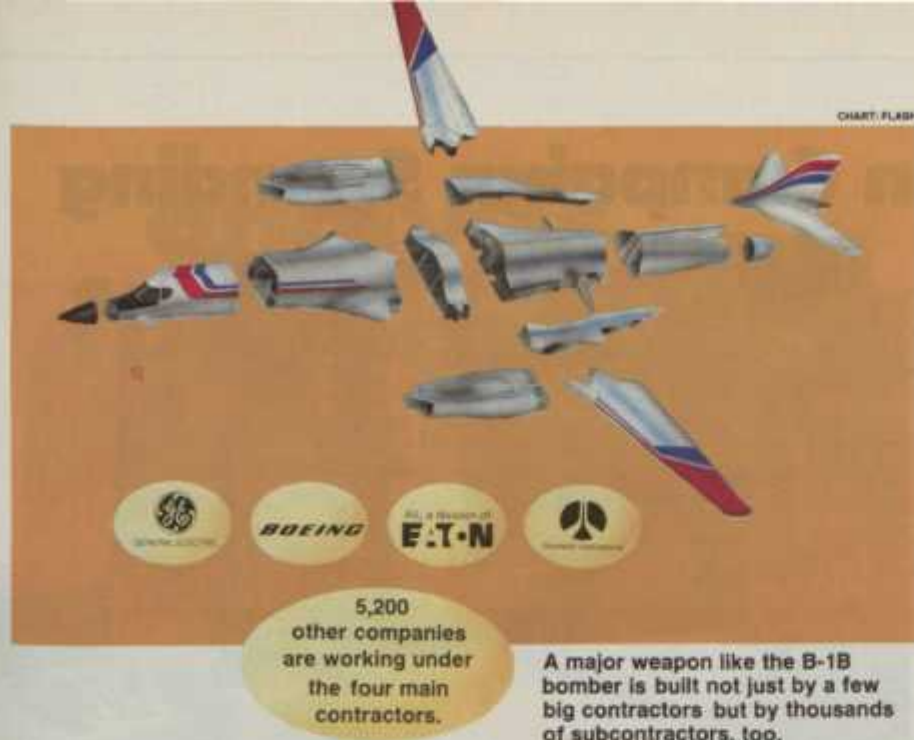
Business opportunities are available at 600 military installations around the country and through 1,100 prime defense contractors that regularly farm out work.

The Pentagon is, however, an exacting customer. A defense contracting officer must get exactly what is specified in a lengthy, fine-print document, or he will not pay. Many newcomers to the defense marketplace have been stung because they failed to realize this.

In most cases, the prospective contractor must engage in a competitive, complicated bidding process. If successful, the provider enters the byzantine world of contract design and execution.

"Selling to the Department of Defense is different from selling to your commercial customers," cautions a Pentagon booklet called "Guide to Defense





Acquisition Regulation for Small Business." "You, the contractor, must abide by certain rules. If you don't, you may not get the contracts or, if you do get the business, you may find yourself in unnecessary trouble."

But don't despair. Leftwich, whose job is to help small businesses meet the requirements of defense contracts, says, "There are people throughout the system to help small businesses get through the morass."

**C**OMPANIES THAT become regular Pentagon contractors soon learn that dealing with federal red tape is a cost of doing business that must be included in overhead. Eventually they find that defense work is "a good, stable market," Leftwich says.

Ronald Thompson's firm, General Railroad Equipment and Services, receives about \$1.5 million annually from the Pentagon for building and maintaining special rail cars. Thompson, the company's president, says that represents about 15 percent of gross sales.

"Procedures follow a rigid, narrow course that makes attention to detail very important," he says. "Contracts can be 60 to 70 pages of fine print. To the typical businessman that fine print may not seem important. It is. It's a difficult market, but once a company learns how to play the game, it can be very successful."

Gnifkowski, president of RIMCO Industries, says many companies get into trouble because "they don't understand the English language or don't take the trouble to read it. Believe me. I've been there. Pentagon contracting officers mean exactly what they say. If you don't read everything in a contract, there will surely be a sleeper hidden somewhere."

But, Gnifkowski adds, "if you're prepared to make a commitment to do exactly as required and you are emotionally equipped to be meticulous in writing and reading and submitting data, the Defense Department is a wonderful customer."

Gnifkowski stresses, however, that it is unwise for a company to specialize in defense work. "If we put all our eggs in that one basket, we'd go broke at the end of any cycle. We're not about to give up our civilian market."

Defense contractors are at the mercy of national security policies that change with administrations. Military contracts are sometimes canceled, and when that

happens, providers are paid for what they have produced up to that time.

Some business people believe that the contracting system is not truly competitive and that it is hard to break into some areas of defense sales.

"If an incumbent is already there, 95 percent of the time the Defense Department will select the incumbent for renewal [despite competing bids]," says George Smith, president of Smith Engineering Company in Oakland, Calif. Making bids in certain situations, he says, "usually means you're just going through an exercise."

**O**THER BUSINESS people complain that the system is overloaded with paper work and top-heavy with bureaucrats; this adds to the cost of defense programs and thus fuels opposition to military spending in Congress, they believe.

A senior executive with one of the country's largest firms says, "In many, many cases, contractors and subs are required to file 40 or 50 copies of contract reports. Everybody, it seems, wants his own report. A lot of people complain about it. It's as though government officials want to make work to protect their own jobs. That's one reason why a nickel item costs \$4.50."

"A lot of people consider it a hassle," says another contractor. But he adds: "We're trying to recover from the recession and we are trying to position ourselves to take even more contracts."

For many firms, military sales are, despite the obstacles, one of the most attractive paths to recovery. □

## The Path Through the Maze

If you would like to sell to the Pentagon for the first time or expand the business you are already doing with defense agencies, here is some advice.

- First, order the following helpful documents from Washington or pick them up at a military installation in your area: "Selling to the Military," "Small Business Subcontracting Directory," "Guide to Defense Acquisition Regulation for Small Business," "Small and Disadvantaged Business Utilization Specialists" and "Defense Small Business Innovation Research Program." Write: Directorate of Small and Disadvantaged Business Utilization Office, Office of the Secretary of Defense, Room 2A340, The Pentagon, Washington, D.C. 20301.

- Comb through the *Commerce Business Daily*. It lists all unclassified

contracts valued at over \$10,000. Write: Superintendent of Documents, Government Printing Office, Washington, D.C. 20402. An annual subscription costs \$175.

- Watch for the award of major contracts to large companies in your area. They contract directly with numerous subcontractors.

- After learning something about the defense contracting process, investigating the market and carefully assessing your ability to provide goods or services, prepare descriptive literature or brochures about your firm's capabilities in the defense market.

- Make an appointment to visit the small business specialist at the military facility or defense contractor in your trading area.

- Carefully study the terms of contracts.



# Standoff on Campaign Spending

**D**ESPITE frequent demands on Capitol Hill for changes in the federal law governing political action committees, Congress is unlikely to make any changes affecting the 1984 elections.

PACs put nearly \$390 million into congressional campaigns in 1981 and 1982, and a number of bills introduced this year would limit spending on congressional races or tighten controls over the 3,500 corporate, union and independent PACs.

But there is a standoff between sponsors of a leading bill to limit PAC campaign contributions, the Clean Campaign Act of 1983, and those supporting legislation that would remove restrictions on certain party activities.

Under present law an individual can contribute no more than \$1,000 and a PAC no more than \$5,000 per election to a candidate.

The Clean Campaign Act would for the first time impose a ceiling on total PAC contributions to a congressional candidate and set an overall expenditure limit of \$200,000. Introduced in the House, the measure so far applies only to that chamber. It also would inject federal matching funds, which already exist in presidential campaigns, into congressional races.

A provision aimed at encouraging small donations permits dollar-for-dollar matches of federal funds for individual contributions of no more than \$100 each, up to a maximum of \$100,000 in federal funds. If a candidate did not accept federal funds, but the opposing candidate did, the candidate who did not take the federal money would be penalized indirectly. The opposing candidate would receive \$2 in federal funds—instead of \$1—for every private dollar raised.

Whether or not federal funds were accepted, total PAC contributions could not exceed \$90,000 per candidate.

"What that bill does is limit personal contributions, removing the individual even more from the election campaign process," complains Richard Thaxton, vice president of political affairs at the National Association of Realtors.

Introduced jointly by Rep. David Obey (D-Wis.) and Rep. Jim Leach (R-Iowa), the bill has been cosponsored by more than 125 House members.

Hearings on the measure have been held by a House Administration Committee task force in Washington, Boston, Sacramento and Seattle. A final hearing will be held next month in Atlanta. Foes of the Obey-Leach bill concede that it will pass the House if it



Detailed political action committee reports are transferred to microfilm at the Federal Election Center, where they are made available to the public.

reaches the floor. But there is strong opposition to the measure in the Senate.

Opponents include an array of GOP leaders, among them Majority Leader Howard H. Baker, Jr., (R-Tenn.) and Sen. Paul Laxalt (R-Nev.), general chairman of the Republican National Committee.

Laxalt is chief sponsor of a vigorously supported measure that would remove limits on spending by political parties in behalf of congressional candidates. The bill would also allow party committees to contribute \$15,000 per election to a candidate, instead of the present \$5,000. Rep. Bill Frenzel (R-Minn.), chief spokesman for the GOP in the House on most election-law legislation, is sponsoring a companion bill to the Laxalt measure. But the Laxalt-Frenzel bill is given no chance of passing the House now, even if the Senate approves it.

"We don't see passage of any proposed election-law changes in the 98th Congress, but a lot of groundwork is being laid on the Hill for 1985-86," says Peter Lauer, director of the American Medical Political Action Committee.

**S**TILL, OTHERS INSIST on more immediate change. Sen. Thomas F. Eagleton (D-Mo.), for instance, warns that the present political fund-raising system has become "a national scandal." But Sen. Steve Symms (R-Idaho) replies, "Nonsense. The frenzied campaign against PACs is a self-serving effort by entrenched incumbents who wish

to make it easier to win re-election."

Competition for money by candidates and their backers "has created a terrible public perception of the PAC system," says Rep. James A. Courter (R-N.J.). He has introduced a bill that would set up blind trusts for contributions given through PACs.

Under the Courter plan, the Federal Election Commission would supervise the contributions and send periodic checks to the candidates' campaign committees—without disclosing the contributors until 30 days before the election and then again 30 days after. Disclosure of campaign contributors' names would be a criminal offense.

Courter does not want to see PAC contributions cut; he would like to see the limits on them increased, but with the blind trust provision added.

John Kochevar, manager of the U.S. Chamber of Commerce public affairs department, has testified on Capitol Hill that the Chamber also opposes tighter limits on PAC contributions. The Courter blind trust idea, he says, "might be a more suitable compromise than reducing PAC contributions."

Although many people believe the bulk of PAC aid goes to Republicans in corporate contributions, Federal Election Commission figures show that PACs consistently favor Democrats when total contributions are added up. In 1980, a landslide year for the GOP in the presidential race, 56 percent of all PAC contributions went to Democrats. □

—Seth Kantor



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# "The Best Boss I Ever Had"

Successful business people recall the bosses who taught them the most.

By Sharon Nelton

**A**RE YOU A GOOD BOSS? Is your boss a good boss? How do you become a good boss? What is a good boss, anyhow?

G. Ronald Gilbert, professor of management and organization at the University of Colorado school of business, queried executives about their best bosses. From the responses, he has drawn a profile of what makes a good boss and pinpointed some characteristics of the boss who is not so good.

"The most important ingredient," says Gilbert, "is that the boss communicate to the employee respect for the employee's ability to do a good job." The employee who feels valued, he explains, will more readily respond to feedback that will help him grow.

An employee who does not feel valued is afraid of getting feedback about performance and often feels alienated on the job, Gilbert observes. The employee says what he or she thinks the boss wants to hear and fails to offer new ideas.

Some bosses, Gilbert says, are what management specialists call "organizational muggers," who tend to rise quickly at the expense of subordinates. Organizational muggers use the ideas of their staffs as if the ideas were their own and stifle the initiative of those who work with them.

Good bosses rise more slowly, Gilbert says, but they are much more productive because "they have an ability to bring a group toward agreement as to what it is to accomplish." They build on the talents around them, give credit where credit is due and make sure their people get high visibility in the company.

NATION'S BUSINESS asked a number of successful business people across the country to describe the best bosses they ever had, and to tell how each boss contributed to the respondent's growth.

Here is how some good bosses have been described by people who worked under them.

Rockwell International's Robert Anderson (below) calls Paul Ackerman an "outstanding motivator."



PHOTO: CHRYSLER CORPORATION



PHOTO: ROCKWELL INTERNATIONAL

**Robert Anderson**, chairman and chief executive officer, Rockwell International Corporation, Pittsburgh. His best boss: Paul C. Ackerman, who was then vice president of engineering and a director of Chrysler Corporation. Under him, Anderson held various engineering posts, leading to the job of executive engineer for chassis, electrical and truck design in Chrysler's central engineering division. (Anderson notes that his favorite boss died in 1979 at age 80.)

"Paul Ackerman was an outstanding motivator of the people who worked for him. He accomplished this through an unusual combination of talents.

"He was a skilled and experienced automotive engineer who knew not only how to engineer a motor vehicle but also why many different parts and components had to go together a certain way to make the whole project successful.

"Beyond that, he understood the total environment in which a car or truck is not just designed but also manufactured and marketed. And he could impart that special insight to a large group of engineers.

"Most important to me, however, was that Paul Ackerman always had time to be helpful, especially to the young engineers on his staff, in spite of increasing responsibilities and all the pressures of a major job. An idea would always receive a hearing, and a knotty problem often disappeared after just a few pointers from him."

**Charles H. Kepner**, vice chairman of Kepner-Tregoe, Inc., a Princeton, N.J., management firm. His best boss: Edward MacLawhorn, who was the manager of supply and warehousing for P.J. Walker Company when Kepner, then 20, was a clerk and warehouseman.

"Ed MacLawhorn was an old-style Westerner, going on 60 and hard as nails, when I worked for him during the chaotic days of mid-1942. P.J. Walker was constructing a manganese recovery mill in the middle of the Nevada desert, a top priority project for the government. MacLawhorn had the job of coordinating parts, supplies and materials because he knew how to get things done.

"He was a colorful old hoot owl and had been in and out of all kinds of enterprises, dubious and otherwise, along the Mexican border for many years. Yet he was the straightest man I've ever known. He didn't lie to anyone, he didn't play games, and he delivered on every promise he made. He was tough, but he didn't have to prove it every time he turned around.

"He was patient and quiet-spoken, and he treated me—a kid who didn't know beans about heavy construction—with dignity and understanding.

"He would give an assignment and make sure I understood it and knew why it had to be done. He would listen to my ideas about how to carry it out. If they made sense, he would let me do it my way; any ideas he had for improvement were given as suggestions.

"He never told me how to do anything. He never gave me an order. He checked to see that things were done and that they were done right, but he never pushed or hovered over me. I worked harder for him than for anyone else I ever reported to.

"He treated me like a human being. He listened to me, he supported me, he guided me in subtle ways I was hardly aware of. He let me learn. He stretched me, challenged me, gave me almost unlimited experience in solving problems and dealing with the crises of a rush job. But more than anything else, he taught me to respect others, to do what Lao-tse had recommended nearly 3,000 years before: 'Honor others, and they will honor you.'"



Edward Manigan  
"respected abilities"  
of Aerobic Dancing's  
Jacki Sorensen.



PHOTO: SETON HALL UNIVERSITY

"The years I spent with John were the most formative part of my business career. During my first management assignment, he became my constant collaborator and contributed to my management philosophy more than any other individual.

"Early in my career, he exposed me to the senior managers of the firm and complimented me repeatedly in their presence. By doing so, he not only maintained my dedication to a long and difficult task, but he also demonstrated that exalting your staff for a good job would produce continued good performance. Continued praise also allowed him to make constructive criticism without provoking defensive reactions.

"One memory particularly stays with me as a reminder of John's philosophy of sharing the credit. As is often the case when an individual seeks to be successful, I had regrettably begun to believe I was the only one capable of making good decisions and had started to use the pronoun 'I' with increasing frequency. John had discussed this tendency with me repeatedly.

One day I found him seated opposite me when I had to make a presentation. Each time I would use 'I,' he would close one eye and roll the other back under his eyelid. I never had a problem sharing the limelight again."

Herman Valentine  
(below) says  
John Holden sought  
success for the  
people he managed.



PHOTO: BLACKWELL COLLEGE



Herman E. Valentine, president, Systems Management American Corporation, Norfolk, Va. His best boss: John B. Holden, president, Beacon College,

Washington. He was director of the Graduate School of the U.S. Department of Agriculture, where Valentine worked right out of college as a financial and property asset manager.

"Dr. Holden taught me something I could not have learned in any university in the world: to inspire people to work hard for me by giving them the opportunity to achieve their personal best through a combination of genuine concern and professional challenges. He motivated employees to excel by assessing their personal needs and devising a channel for self-fulfillment through work achievement. He was as concerned with what a clerk got out of his job as he was with what a manager got.

"I will never forget the first party I attended at his home. Dr. Holden lived in an exclusive building in Washington, next door to Sen. Hubert Humphrey, and I expected an elite guest list. Yet mingling with some of our nation's most remarkable scholars and statesmen was the mail clerk from our office—a black—and his wife.

"As prominent as Dr. Holden's station in life was, and as tough-minded as he could be, he measured his success through the success of the individuals he managed, and he carried that concern for individual betterment through self-fulfilling work into depressed neighborhoods and schools, particularly black neighborhoods. His remarkable professional and social achievements were so interwoven that I could not imagine one without the other.

"He taught me how to put together a group of people who will respond to an opportunity to exceed their own expectations of themselves, and I feel many of my own achievements are attributable to the keen social awareness that he exemplified."

Celia M. Gallagher, receiving and warehouse supervisor, Eagle Comtronics, Inc., a Syracuse, N.Y., firm that manufactures security systems for the cable television industry. Her best boss: Alan E. Devendorf, president, Eagle Comtronics.

"When Eagle was founded in 1976, there were just a couple of men and an idea. Under the careful tending of Alan Devendorf, our company has grown immensely. We now employ over 700 assembly line workers, engineers and technicians, and Eagle holds 60 percent of the market share for our product.

"Many of us have been with Eagle since its infancy. Alan has always shared with us his belief that we, the workers, are the backbone of this company. He never misses a chance to remind us that without our efforts to pro-



PHOTO: AEROBIC DANCING, INC.

Jacki Sorensen, chairman, Aerobic Dancing, Inc., Northridge, Calif. Her best boss: Edward W. Manigan, director of student activities, Seton Hall University, South Orange, N.J. Sorensen worked for him when she was Seton Hall's assistant director of recreation and director of women's intramurals.

"Ed Manigan was a good boss for many reasons, but probably foremost because he respected my abilities and intuition and allowed me to try new things. Because the university had only recently become a co-educational institution, there was no history of women's programs to draw on. He recognized that his background as the football coach and director of men's intramurals might not have prepared him completely for dealing with the added responsibility for female students. He was genuinely interested in helping me work to build good programs for them.

"He was also interested in the welfare of the university outside of his area of responsibility. Working together, we were able to foster better campus-community relations through activities sponsored by our department. A less well-rounded boss might have insisted on sticking to more limited projects."

David W. Grace, president, Interactive Financial Services, Inc., Marietta, Ga. His best boss: John P. Granor, regional sales manager, Prudential-Bache, Atlanta. Granor supervised Grace when Grace was a manager for Bache-Halsey-Stuart in New York City.



duce a top quality product Eagle would not be where it is today.

"When I began working at Eagle in 1978, I worked on the production line. Eagle was still young, as I was, and Alan was still learning about his people and their problems. I was always eager to point out these problems to Alan and I was sure that he thought of me as a rebel and a thorn in his side.

"At our company clambake in 1979, during my days as an ardent union sympathizer, I approached Alan. I complained to him about all the problems I felt we had at Eagle. He listened to my rantings for perhaps an hour. Then he said, 'Celia, when you can come up with a way to solve these problems, we'll see what can be done.'

"I'm sure he knew that the challenge would be too much to resist. I learned something very valuable that day. Complaining will accomplish nothing. Offering solutions is the only way to get results.

"After reading everything I could find on management and people, I presented Alan with a list of problems and possible solutions. What could be done, he did. What couldn't be done, he let me know. He took the time to explain his reasoning, and it was sound. I could accept that, and I developed a great respect for this man who afforded me his time and patience.

"Now I am a supervisor, and I feel it was Alan Devendorf's insight into my personality that has allowed me to grow with the company. He knew how to develop a rebel into a dedicated employee."

Public relations pioneer John Hill (right) inspired George M. Worden.



PHOTO: PETER BACHMAN



PHOTO: HILL & KNOWLTON

**George M. Worden**, senior vice president, Hill & Knowlton, Inc., Washington. His best boss: John Wiley Hill, one of the early practitioners of public relations and founder of Hill & Knowlton. Worden, in his 20s, was an aide-de-camp to Hill.

"I carried his briefcase. I went with him to client meetings and made notes. I was an unobtrusive figure at internal policy meetings. I listened to John Hill

every day. I almost watched him think. During that tour of duty, I learned more about management and the then still new field of public relations than I have learned since.

"Just about every operating principle John Hill espoused was right. The more experience I get, the more right I find he was. Even today, as problems come up, I ask myself what John would have done or what he actually did under similar circumstances. When I have followed in John's path, I have seldom been wrong.

"Credo No. 1 was: 'This is a *people* business. We are dealing with people's lives, their emotions; we are selling an intangible. We are advisers and counselors. We should make *no* mistakes.' He conditioned that by saying, 'When you do make a mistake, make it on the conservative side.'

"People would be selected to join H&K and often they would be gone in three months. 'You don't really know about them until they are on the job,' John said. So the new employee was thoroughly tested in the first 90 days. If he didn't measure up, he was quickly let go.

"Once on the team, you were quickly given as much latitude as you cared to take. He was open to new ideas. He welcomed innovation. The idea didn't go into place until you had survived a thorough cross-examination from John. Once satisfied, he would say, 'O.K., go.' He didn't tell you when or how to report back. You were supposed to figure that out for yourself."

## The Vital Ingredient: Respect

Chances are, you intensely disliked the best boss you ever had.

That is because a good boss makes employees face their deficiencies, explains Neal Thornberry, associate professor of management at Babson College, of Babson Park, Mass.

"Nobody likes to face his or her own incompetence," he adds. "If you respect that boss, in retrospect you realize how good he was in making you competent, though you may not like him any better."

Respect is critical, Thornberry continues. If you do not respect your boss, that boss cannot be effective, because "you don't listen to someone you disrespect."

Thornberry expresses impatience with management schools that have oversold the "human relations doctrine," which encourages a softer approach and cautions against placing stress on employees.

"To be developed," he says, "you

have to face the deficits in skills that you have. Someone has to point them out." That someone is likely to be a hardnosed boss.

Thornberry's advice to bosses:

Level with your employees; you do them a disservice if you brush over their deficiencies.

If you discover some incompetence in a subordinate, start with a tough, task-oriented approach. Follow the example of the manager who kept returning one employee's poorly written material for rewrites. The subordinate was miffed, but he became a better writer, and he later recognized that he had learned more from this boss than he had from any other.

A highly motivated employee will respond well and try to improve when deficiencies are pointed out consistently, Thornberry observes. As a subordinate becomes more competent, you can change your

style and become a nice guy. It is harder to go in the other direction—from being a nice guy to turning tough—because your employees are sure to resent it.

If you are an employee and you want to get ahead:

- Beware of the boss that everybody loves. Popular bosses may not be able to take actions that are unpopular and may avoid telling you about your deficiencies.

- Look for a boss who will push you and stretch you, a no-nonsense sort who will delegate a lot to you and expect you to come through with a good performance without having to hold your hand a great deal.

"If you are willing to take a risk and are open to criticism," Thornberry concludes, "you can learn a lot from someone who is tough on you and won't let you slide by with mediocre performance."



"He stressed certain themes—'honesty, integrity and good judgment,' he'd say—and demonstrated them by example."



Playfulness is part of being a good boss, says consultant Robert Waterman.

**Robert H. Waterman, Jr.**, co-author of *In Search of Excellence* and a director of McKinsey & Company, a management consulting and business problem-solving firm in San Francisco. His best boss: Waterman won't say, because he has had a number of good bosses, and he does not want to leave any of them out. But he will describe the traits one of those good bosses embodied.

"My favorite boss had tremendous faith in me as an individual. His expectations of what I could achieve were higher than my expectations of myself. Here was a person I admired, and he was saying, 'You can set out to do anything you want.' He was really a good role model—the kind of individual I would like to be when I got to be his age, in terms of integrity, business judgment and ethics.

"There was always a sense of adventure and fun. Despite the fact that we had lots to accomplish—and 90 percent of the time, the relationship was businesslike—we could always joke and not take ourselves too seriously. We felt we were taking some risks together. There was always a little at stake, but the playfulness offered some protection if things didn't work out."

Good bosses, sums up the University of Colorado's Ronald Gilbert, create an atmosphere in which employees see feedback about performance—good or bad—as "valuable and useful, something to be celebrated, not feared." □



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**S**OME PEOPLE are born musical prodigies; others, mathematical or scientific geniuses. In Peter Herder's case, it was home builder par excellence.

Innate skills are easily explained by genealogy. Herder's grandfather was a home builder as well as a furniture maker in Kalamazoo, Mich. His father, Albert, built homes and churches for half a century in Denver, where Herder was born and spent his formative years.

"I grew up in the business," Herder, 54, says. "Home building is in my blood." A smile ripples across a strong face, bronzed by the sun. He tells how when he was 16, in a burst of entrepreneurial spirit, he and a brother leased government forest land. They built two cabins in successive summers and sold each at a nice profit.

Building has been profitable for Herder as an adult, too. So have related businesses. Since 1958, when he formed the Herder Construction Company, geared to residential construction, he has plunged into commercial and industrial development and construction, a realty firm, a property management company and a mortgage banking subsidiary. He anticipates total sales this year of as much as \$60 million.

There was a five-year period of "straying" before he knuckled down full time to home building. He pursued a second love, teaching, after getting a B.A. in physical education from San Jose State University and an M.S. in business administration from the University of Southern California at Los Angeles. He was a physical education instructor and football and wrestling coach at a San Jose high school. Meanwhile, he and his wife, Recie, who was teaching in elementary school, dabbled in home building on a part-time basis.

Eventually the Herders decided to get into home building all the way. They set a deadline of five years; if the business did not become a going concern in that period, they would stick to teaching.

But success came swiftly, without the usual adversities. One reason, in addition to Herder's childhood immersion in building, was his wife's background—her stepfather was a California home builder.

Another success ingredient was careful scrutiny of five sun belt cities—two in California, two in Arizona and one in New Mexico—to choose the best location for a budding home builder. Tucson emerged the victor because "it had the nicest lifestyle and the best opportunity for the least amount of capital," Herder reminisces.

With borrowed capital and \$10,000 in accumulated savings, the Herders



## Profitable Customs Of a Custom Builder

"Intelligent diversity," motivating workers and keeping up with the times pay off for Peter Herder.

By Mary-Margaret Wantuck

began construction of their first house.

"We'd get up early in the morning and work on it before school started," Herder recalls. "After school, we'd go and work on it some more." It was just he and his wife, his "invaluable" partner, and two to four workers—"just enough to do a house"—with a few subcontractors thrown in.

**T**HE HERDERS sold the house for \$39,500, making a \$7,000 profit. Today it is worth \$200,000, Herder estimates. From that one dwelling in that first year, Herder's enterprise mushroomed to the point where he now builds between 200 and 250 annually. Prices run from \$60,000 for small townhouses to as much as \$200,000 for sin-

gle-family detached homes and townhouses. Herder tries for a mix of different types of housing, but his emphasis is on the custom-built. He is Tucson's leading builder of custom homes.

According to Herder, it is more cost-effective for large builders to concentrate on lower-priced housing because they have the field staffs, the capital and the ability to build fast. Small or medium-sized builders (he considers himself in the latter category) do not have the same capability, he says, and may find it more prudent to concentrate on higher brackets.

His products exude opulence. Bathrooms in the detached homes sport panoplies of mirrors. Sunken marble bathtubs are ringed by decks and placed



near huge expanses of window overlooking walled-in gardens. "Bathrooms are very emotional rooms," Herder comments. Kitchens boast every state-of-the-art appliance, double-dome skylights, breakfast areas and eating terraces.

There also are wet bars, parquet flooring, interior atriums, walk-around patios, fireplaces of marble and stone. Many of Herder's higher-priced townhouses have most of the same features.

**D**EMOGRAPHICS is another reason for Herder's proclivity toward custom housing. Tucson is rapidly becoming a beehive of high-technology activity, attracting people who can afford quality homes. It also has a strong concentration of retired professionals who find it no hardship to plunk down money for a townhouse selling for \$100,000 or more.

Five years after the founding of Herder Construction Company, business was blossoming, and Herder formed the Villa Catalina Construction Corporation, a commercial construction firm.

"My philosophy of life is built around the words 'intelligent diversity,'" Herder says. "I felt early on that in order to be successful in this business, I had to diversify into related areas." Villa Catalina has been the conduit through which a number of townhouse and small commercial projects have passed. Herder also has had extensive partnerships in shopping center ventures. Currently, he is concentrating on completion of a shopping mall in Tucson that is designed to reflect the ambiance of Mexico City.

Increasing Tucson's vitality as a metropolis is high on Herder's priorities list. His establishment of the Herder Commercial Development Corporation in 1980 was a commitment to this end, as well as to diversity. Still in its embryonic stage is Herder Palo Verde—a 225-acre industrial park that will offer high-tech companies easy access to the city's airport.

Then there is Herder Property Management Company. Building is simple compared with properly managing and maintaining commercial and industrial properties for their owners and residential subdivisions for homeowner associations, Herder says. He has fared well in property management. Clients who have left his firm "usually come back in a hurry," he says.

Perhaps one of the principal

reasons for his continued success has been a willingness to go with the times. Once a builder has his feet on the ground and a stable company within his grasp, he cannot take a siesta, Herder says.

"Some 25 years ago, the business was rife with people who were great with their hands and could produce a good product but didn't have enough understanding of the operational workings," Herder explains.

"Today the industry has progressed to the point where you really have to understand the mechanics of business management to survive. Rather than just being a tool person, you have to emphasize mortgage finance, cost control on land, labor and materials, and on overhead and construction financing."

He is a fervid follower of market trends. That is important, he says, if he is to live up to the Herder Construction Company motto: "To maintain consistent net profit after taxes by producing a quality product serviced with integrity."

Last but not least, if a builder's employees are not proficient, productive

and loyal, he is nothing, according to Herder. His employee turnover has been low—many on the staff of 100 have been with him for more than 20 years, some from the Herder Construction Company's inception. He attributes that to the team spirit he has fostered.

**P**ENSION, profit-sharing and equity participation plans have helped make his employees feel they are vital to company operations. "You can't maintain a successful business without motivated workers," Herder says. "You have to treat people as individuals and respect them as such."

Frequently out on the talk circuit, he advises young builders that it is important to let their employees know that management cares. Herder himself makes a point of addressing all of his employees by name both in the office and out in the field. And though his time is limited, he says he visits each project he has going and chats with the workers. "It's the little things that motivate them to do a better job," he says.

Herder's dedication to the housing business does not end with his own en-

A busy schedule does not deter Peter Herder from keeping in touch with workers on his many projects. "It's the little things that motivate them," he says. Below, he stands in the plush living room of one of his custom houses.



terprises' operations. He has been deeply involved in national and state organizations that deal with the political, legislative and regulatory ramifications of housing.

In 1981 he was the only home builder named to serve on President Reagan's 25-member Commission on Housing, charged with finding solutions to the problem of creating viable housing in the 1980s. He has been president of the Southern Arizona Home Builders Association, and next year he will assume the presidency of the National Association of Home Builders.

He is a past president of the



Tucson Metropolitan Chamber of Commerce and a present member of the board of directors of the U.S. Chamber of Commerce and chairman of its construction action council executive committee. Also, he is serving a second term as president of the Tucson Downtown Development Corporation, devoted to inner-city revitalization.

"You need a healthy inner city in order to have a healthy city overall," Herder says. He believes that one way to stimulate a positive economic climate in the inner city is by setting up enterprise zones—where businesses would locate in depressed urban neighborhoods in return for tax incentives and regulatory relief.

He has undertaken several statewide activities as well. He has been a commissioner of the Arizona Power Authority and has served on the governor's task forces on state urban lands and state transportation.

Why has he given so much effort to public service, particularly on the state and local level? He answers without hesitation: "Arizona has been very good to my wife and me, and we want to return the favor. After building up the business for 10 years, we made a deliberate decision to steep ourselves in community and state affairs." Recie Herder, still active in the business—she is an executive with diverse responsibilities—is also active in several civic organizations.

Herder continues: "I really have a love for the state. I've always been concerned about economic growth, about creating a proper environment for home building. And since we've had to contend on occasion with no-growth philosophies from Tucson's city fathers, that has only made me more determined to strike out in an all-out positive direction."

Land development costs, he says, are a major impediment to building affordable housing.

"Getting a lot finished—building the whole infrastructure—putting in streets, and water and sewer lines, making schools, firehouses and police stations available—is more expensive than building the actual house," he says.

"Housing has to deal with more agencies of government and more people in those agencies than any other industry. If you start to chart it out, it

becomes mind-boggling. Builders have to deal with between 12 and 20 agencies just to get a lot finished, a process that may take 36 months and increase average land costs as much as 25 percent."

What is needed, Herder says, is streamlining—concentrating responsibility in the hands of one official.

Las Vegas has managed to slash its



Herder chats with the owner of the first home he built, 25 years ago, and sold for \$39,500. Today, its estimated worth is \$200,000.

land development procedure to about six months, Herder says. And, he says, although Tucson has a way to go in matching Las Vegas' progress, the city has significantly whittled down the time required for a project to get through the bureaucratic complications. It used to take 18 to 24 months, Herder says, and now takes 12 to 18.

Zoning restrictions are another prime concern of his. He uses Tucson as an example.

"For years we had requirements that every home had to be on at least one acre. We even had parts of the city zoned so every house was allotted four acres. When you have that, there is no way you're going to end up with reasonable housing prices. Fortunately, Arizona's cities have slowly but surely been raising densities."

**A** CITY OR STATE must have affordable housing, Herder maintains, or it is goodbye to major economic growth and employment opportunities. That is the problem these days in California, where median-range housing prices are between \$130,000 and \$150,000, Herder says.

Herder emphasizes that cities and states must also offer plentiful energy supplies at low cost and quality educational institutions that have sophisticated research capabilities.

He turns to the federal government's responsibility toward housing and the present administration's focus on more state and local action in this area.

"If you want to be realistic about it today, I think no matter what industry you're in—import-export, agriculture—you're subsidized to some extent," he says. "The federal government definitely

has a role to play in housing but not by direct subsidy in heavy doses." One such subsidy, he says, would be the proposed emergency mortgage assistance to unemployed homeowners.

The approach Herder advocates is a type of federalism in which Washington sets broad policy, and states and localities interpret and implement the directives.

"The federal government should allow state and local governments some creativity," he says. "They are much more attuned to where funds can be used most cost-effectively." Mortgage revenue bond, industrial development bond and community

development block grant programs are examples of such federalism in action, Herder notes.

Some critics of the administration argue that the President has abandoned housing as a No. 1 priority. Not so, Herder retorts. In fact, he says, "the administration's actions have been very beneficial for housing—less government spending, less taxation, less regulation—basically a philosophy that is good for business and consequently for housing over the long run." He concedes, however, that "work needs to be done on an overall housing policy with a free-market orientation."

Herder is a man in love with his industry—gripped by its allure, its problems and the desire to correct them. How does he get away from it all?

He doesn't, really. To him, his work at the U.S. Chamber and other organizations is sufficient extracurricular activity, he says.

However, before he is pegged as an incorrigible workaholic, Herder explains that he does try to spend as much time as possible with his children—three sons and a daughter, aged 14 to 20.

But when all is said and done: "I would say the bottom line is that my work is my hobby." □

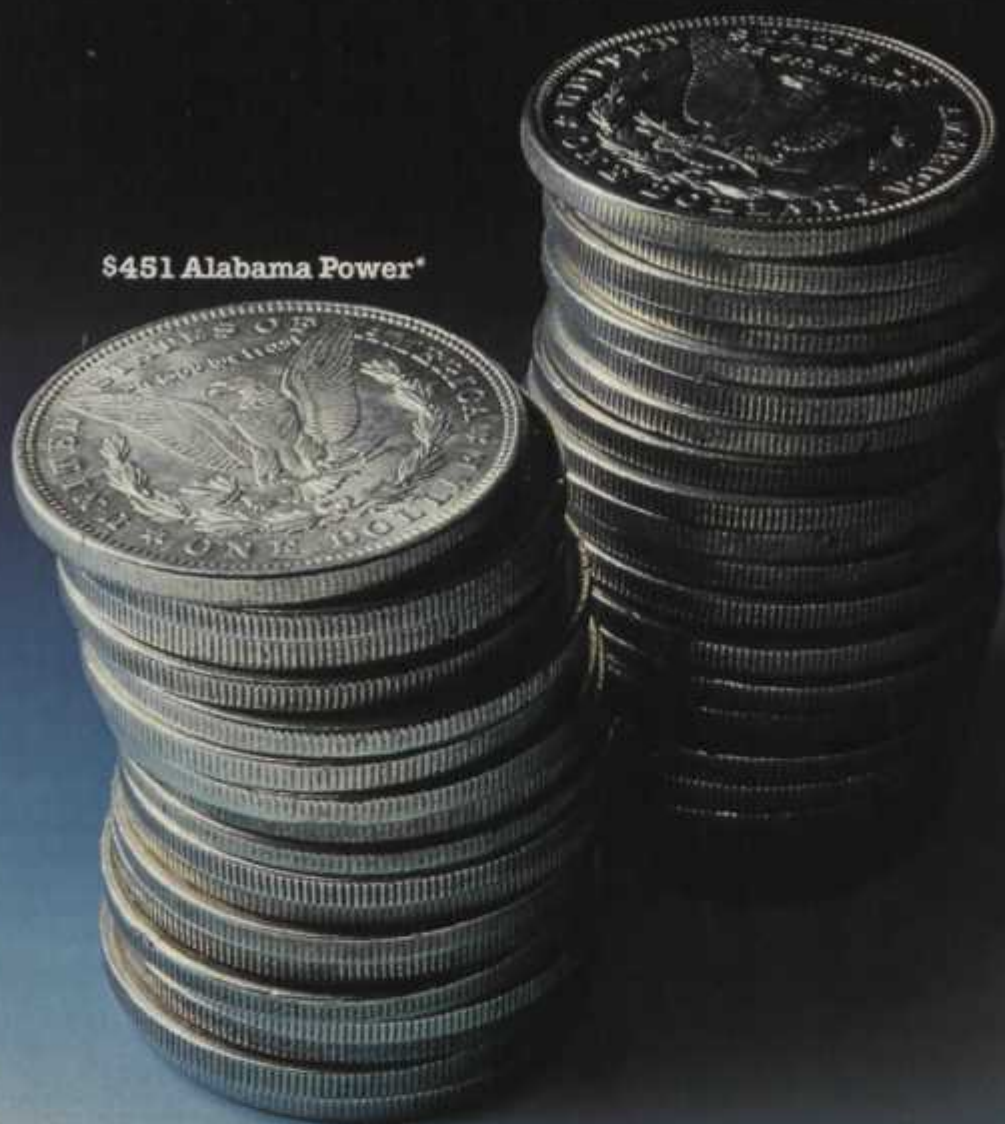


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# The Sad State of the States

By Joseph G. Mason

**D**ESPITE emergency legislation to speed up tax payments and divert money from special funds, the California general fund "still ended the year with the worst cash position in its history."

That report by the state's controller, Kenneth Cory, spotlighted a fiscal cri-

sis that left the nation's most populous state unable to pay its bills for three weeks this summer.

Though larger in degree, California's budget problems reflected those of most other states, which have been squeezed by a convergence of forces that generally decreased revenues

while driving up spending. More than 40 states considered tax increases over the past year, and 34 enacted legislation that will boost their total revenues by some \$10 billion a year. Several other states have not yet reached decisions on changes in fiscal policy.

The Washington-based Tax Foundation, which conducts nonpartisan analyses of revenue developments at all levels of government, says the current round of tax increases "will be piled on top of some \$8 billion in higher annual tax bills that were approved in over half the states in 1981 and 1982."

Just four years ago, at the start of fiscal 1980, the states were expected to show a joint budget surplus of \$11.3 billion. The Carter administration proposed to eliminate the states from general revenue sharing on the ground that they did not need federal help.

But two years later, at the end of fiscal 1981, the aggregate state surplus was down to \$6.9 billion. At the end of fiscal 1982, it was \$4.8 billion, and for fiscal 1983, which ended for most states last June 30, the aggregate surplus was only \$345 million—less than 0.2 percent of total expenditures.

**B**Y LAST JANUARY, midway through fiscal 1983, Idaho, Kansas, Michigan, Nevada and North Dakota were projecting revenues more than 10 percent below the estimates made when spending was being planned. California, Colorado, New Hampshire, New Jersey, Wisconsin, New York, Virginia, Pennsylvania and Vermont—all previously without fiscal problems—found themselves facing unexpected trouble.

Oil-rich states, accustomed to registering large surpluses, were affected as oil prices declined. Texas must close a deficit of \$397 million for fiscal 1984. Alaska is looking at a \$300 million deficit, compared with a surplus of \$600 million at the end of fiscal 1982.

States have generally regarded a 5 percent surplus as prudent. This is usually enough of a cushion against unexpected decreases in revenues, emergencies requiring unplanned spending and ordinary variations in cash flow. But at the end of fiscal 1983, 26 states had surpluses of less than 1 percent of their annual expenditures. By the end of fiscal 1984, 29 states could be below the 1 percent surplus figure.

Only one state, New Hampshire, can legally end the year with a deficit, so state legislatures have been forced to act.

There are four main reasons for the

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As unemployment rose, state tax revenues fell and spending on services went up.

PHOTO: DAVID WILKIN

states' fiscal problems: the recession, the lower rate of inflation, reductions in federal aid programs and the unpredictability of federal funding.

Of these, the most pervasively damaging has been the recession, which cut heavily into sales and income tax receipts.

It is estimated that a percentage point change in gross national product, up or down, produces a \$900 million change in state revenues in the same direction. State budget officials estimate that a percentage point increase in unemployment reduces aggregate state revenues approximately \$2 billion. Higher unemployment also increases demand for costly social services.

The lower rate of inflation, although generally welcomed, further complicated the states' financial plight, since it reduced tax collections—particularly of sales and gasoline taxes.

Federal aid has been a source of many problems. It is the largest single source of revenue for state govern-

ments; it is also the revenue source over which governors and state legislatures have the least control.

The federal budget cuts initiated by the Reagan administration have hit hard at aid to the states, to the point that such aid made up about 23 percent of state revenues in fiscal 1983, as opposed to 32 percent just two years earlier. Moreover, the purchasing power of federal aid has been reduced by inflation.

In constant dollars, federal aid was \$71 billion in fiscal 1977 but is expected to shrink to around \$50 billion in fiscal 1985—a decline of almost 30 percent.

**C**UTS IN FEDERAL AID have a ripple effect on state budgets. To receive some grants, the states must meet conditions set by the federal government—and meeting those conditions (matching funds for Medicaid, for example) can tie up large sums.

Likewise the "maintenance of effort" requirement, which prevents states

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## DISCOVER THE GREATER CINCINNATI ADVANTAGE.

from using federal funds in place of state money for a particular function.

Three proposals in President Reagan's budget for fiscal 1984 illustrate the dependence of state revenues on federal actions, even when no direct federal grants are involved. The President proposed that:

- The Social Security tax rate on self-employed persons be increased in 1984 from the current 75 percent of the combined employer-employee rate to 100 percent, with half the amount deductible as a business expense for federal tax purposes. Thirty-two states with broad-based income taxes are tied to the federal definition of taxable income. A rough estimate is that this provision will reduce state revenues by \$2 billion in 1984-1989. Several states are known to be looking at ways to "decouple" their income tax provisions from the federal income tax.

- Employees be required to pay income tax on that part of employer-paid health insurance premiums that exceeds \$175 a month, or \$2,100 a year, for families (with a lower threshold for single persons). This measure would increase revenues—up to \$1 billion in FY 1986—if states adopted it.

- Earnings on savings deposited in special accounts for college expenses of dependent children be excluded from federal taxation. By creating a new type of tax-free income, these accounts could reduce the attractiveness of tax-exempt state and local bonds. States thus might have to pay higher interest rates on those bonds.

**C**HANGES at the federal level are most disruptive when state programs are designed in the expectation that federal funds will be available, but they are not. Congress often delays major budgetary decisions until late summer or fall, but virtually all states limit the length of legislative sessions, and so most state legislatures must complete their budgets in the spring, long before Congress acts.

For the last two years, special sessions of state legislatures have been common. Cuts and delays in funding federal aid have joined with the recession and other factors to force constant adjustments in state programs.

Even with economic recovery under way, finances will continue to be a major concern in state capitals. The trauma of the last few years will still be fresh in officials' minds.

As one state budget official says, "You are going to see more proposals for taxes, and bigger spending cuts, from more states than you ever thought possible." □

JOSEPH G. MASON is a Washington association executive and free-lance writer.



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PHOTO: GARY KEEFER



As more youngsters like Tiffany Kellogg learn about computers from instructors like Kathy Raeder, the day comes closer when business can take "computer literacy" for granted.

## Personal Computers Are Coming of Age

The name of the game now is versatility, as fast-selling machines make themselves at home in homes, schools and businesses.

By Bob Gatty

**Q**UIETLY THEY SIT at computer terminals, their fingers moving over keyboards, images appearing on monitors in front of them. As they work, their minds are busy figuring out what happens if this key...

Among the computer operators is Tiffany Kellogg, 3 years old.

She is one of several preschoolers at a Mary Moppet's Day Care School in Tucson, Ariz., who are learning to operate and program a personal computer. To participate, says the school's director, Arlene Bemer, all the youngsters need to learn is the alphabet. Then they sit down with a Texas Instruments computer and an instructor.

The children do not play video games. Instead, they learn how to write instructions for the games. Using the computer becomes as natural as tossing a ball. These youngsters, Bemer

says, will be ready for tomorrow—prime candidates to hold responsible positions in, or even run, businesses like yours.

The tomorrow in which they work will be shaped by the incredible growth today of the market for the personal computer.

Millions of people now are doing their jobs, managing their money, checking the stock market, and keeping up with the news with the help of microcomputers, some of them small enough to fit in a briefcase. Of course, there are also the video games—250 different games manufactured by 20 corporations with sales estimated at \$2 billion this year.

Future Computing, Inc., a market research firm based in Richardson, Tex., reports that sales of personal computer hardware (the machinery) and software (the programs that make the machinery

work) topped \$9 billion last year. It says sales will grow annually by more than 25 percent and be above \$35 billion by 1988.

Some 4 million personal computers are now in households nationwide, compared with about 70,000 four years ago. Moreover, it is estimated that by the end of this year 2.64 million will have been installed in businesses, a figure expected to rise to 12.5 million by 1988—the rough equivalent of one for every business in the nation. The total number of personal computers expected to be in use by the end of the century is as high as 80 million.

"Increasingly, people believe the personal computer is as necessary as the telephone or the TV," says Vico E. Henriques, president of the Computer and Business Equipment Manufacturers Association.

Personal computers (the term has helped to broaden marketing of what technically is the microcomputer) can be put to a seemingly endless variety of uses. New technology constantly provides new ways to take advantage of the machines, which range in price from about \$50 for the most basic to about \$10,000 for the most sophisticated.

The \$10,000 figure is used by market analysts to identify the high end of the personal computer market for statistical purposes.

A recent Gallup poll found that 51 percent of the personal computer owners questioned play video games with theirs—the largest single use. However, many owners use their systems for more than one purpose.

Increasing numbers of PC owners do business homework, like accounting or forecasting, with their micros. PCs help some people run businesses operated in their homes. Many families find the systems invaluable as teaching aids, helping with spelling, math and even foreign languages.

A large number of families use their systems to help balance the checkbook, in planning and keeping track of their household budgets, filing recipes or



counting calories. Still other people write letters and reports on PCs, which enable them to make revisions easily before printing out finished copies.

Says Henriques: "More and more it's an educational thing, a personal professional use or a hobby, rather than a game thing."

That trend has sent shock waves through the personal computer industry. Manufacturers of systems used and marketed primarily as entertainment devices have found themselves in trouble as competitors have introduced systems that can do much more than play games.

**A**T THE SAME TIME, a price war has taken its toll. It started in August, 1982, when Texas Instruments dropped the price of a basic console to \$150 and its competitors followed.

The upshot: TI reported losses of \$183 million on its home computers in the second quarter of this year. Warner Communications' Atari unit showed a \$310 million operating loss during the same period as its video game business declined. Mattel, planning to offer a home computer component with its video game unit, posted a \$100 million loss in the first half of 1983. Sales of Timex-Sinclair 1000 home computers have dropped by a third in some stores.

Meanwhile, a company—Commodore International—that is producing what consumers view as a low-cost second generation unit has seen sales take off as a result of cutting the cost of its Commodore 64 from about \$600 to \$200.

Software programs that permit the variety of uses now sought by consumers number about 31,000, compared with 818 in 1980, according to Larry Stockett, chairman of PC Telemart, Inc., in Fairfax, Va. Stockett's firm publishes a software directory that identifies 2,912 software publishers and 200 personal computer manufacturers. It also maintains the National Software Library in Fairfax, where an individual can test specific software on specific computers before buying.

Software programs can be general, like word processing, or they can be directed at a specific, narrow application.

Henriques notes, for example, that Hewlett-Packard offers a software program for use with a personal computer that can be taken aboard the family boat. Object: to help keep the family navigator from getting lost.

"Using the personal computer is becoming second nature to many people," says Henriques. "Want to buy a new house? Go to your computer, put in a real estate program, type in the specific

factors involved and decide whether it's a deal you want to make. Have a little extra cash? Put in the program for taxes or investments and decide what you want to do."

The technology explosion that permits this almost routine use of computing power means that people will need knowledge they do not now have if they are to function effectively in the years ahead.

"Everybody, whether they like it or not, will be faced with dealing with computers," says Stockett.

John V. Roach, chief executive officer and president of Tandy Corporation, which manufactures the Radio Shack TRS-80 microcomputer, cautions that "in the course of the next decade, most Americans under 40, if not all Americans, regardless of age, will and must become computer-literate."

Roach's company has aggressively marketed computers to school systems across the nation. Radio Shack last year committed \$500,000 worth of TRS-80 computer equipment to a grants program designed to encourage use of microcomputer technology in educational



The battery-powered Radio Shack Model 100 can be carried in a briefcase.



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# SPECIAL REPORT

institutions. Since then the firm has awarded hardware, software and related products to individuals and nonprofit educational institutions whose proposals were selected as providing the greatest benefit to American education.

**T**HE FIRM also has a program, called "America's educational challenge," that offers elementary and secondary school teachers basic classes in computer applications in education, at no cost to teachers or taxpayers.

Said Roach when announcing the program: "Society will reap the benefits when students not only expand their minds through use of the computer but also when they help their parents develop a better understanding of the computer."

The company estimates that more than 300,000 microcomputers were in use in schools at the end of last year and that there will be 500,000 by the end of this year.

Apple Computer, Inc., is considered

communities without such school programs parents will pick up the slack.

"Parents will begin to feel that it's their responsibility to make a personal computer available to their kids," says Stockett. "If they don't, their kids are going to be behind. They won't be able to compete with many of their peers."

A family buying a personal computer to help with homework quickly finds out that the cost of the computer itself is only the beginning. There is also the cost of a printer, from about \$300 for the least expensive up to about \$2,000 for a letter-quality "daisy wheel" machine. On top of that is the software, which can run from about \$90 to about \$350.

However, one new product called Adam, from Coleco Industries, includes a letter-quality printer, typewriter keyboard, built-in word processing software and capacity enabling users to play Coleco-Vision games—all for \$600.

Some colleges require students to take computer literacy courses and, in some cases, actually provide each student with a microcomputer. For example, incoming freshmen at Clarkson College in Potsdam, N.Y., will be issued their own Zenith Z-100 desk-top computers this year.

Helen Chapple, director of college relations at Clarkson, says that for the past three years the school has required all freshmen to take a computer course and has provided 200 terminals for their use. To cut down on the long waiting times at the terminals, the college decided to buy the micros, which retail for about \$4,000 and can be tied into the school's IBM mainframe system.

Personal computers are increasingly showing up on desks in company after company across the nation. The trend really took off, according to Stockett, when IBM introduced its personal computer in 1981, years behind some of its competitors. "That gave the whole movement credibility," says Stockett.

According to International Resource Development, Inc., a Norwalk, Conn., market research firm, IBM had captured a 28 percent share of the business microcomputer market and a 13 percent share of the market for units selling for under \$2,500 by the end of 1982.

Apple, the research firm says, held a 33 percent share of business uses for the same year, Radio Shack, 15 percent,



Stores specializing in small computers have sprung up to meet the new demand.

Osborne, 10 percent, and others, 10 percent. For the less expensive machines, generally used in the home, Commodore, Sinclair and Texas Instruments combined had, in round figures, a 38 percent share, followed by Atari at 19 percent and Apple at 13 percent. All others combined had 15 percent.

The fastest growing market segment for personal computers, according to Stockett, is the large companies. Professionals want to use the systems to increase productivity, but, Stockett adds, there is another factor. "Word processing and office automation systems were sold to be used by secretaries," he says. "Micros are being sold to managers and professionals. It's a status thing."

**S**OME PERSONAL computers are small enough to take to client meetings, where files can be called up or orders filled on the spot. On business trips, reports and projections can be completed while on the road. Important information can be stored on a single disk or cassette tape.

In addition to performing a myriad of on-the-job functions, the PCs can gain access to databanks, an increasingly important source of information for business. These include the latest from the *Wall Street Journal*, the *New York Times*, AP and UPI, and many others.

In fact, David Kay, vice president of Non-Linear Systems, which manufactures the Kaypro personal computer, contends that "if it isn't portable, it doesn't pay to buy it." Kaypro machines weigh 26 pounds and come with a metal case. Other manufacturers, like Osborne and Radio Shack, also make portables that can be carried easily from home to office.

The Radio Shack Model 100, which weighs only about 5 pounds, fits easily in a briefcase and works on flashlight batteries. A small screen and software for several key functions are built into



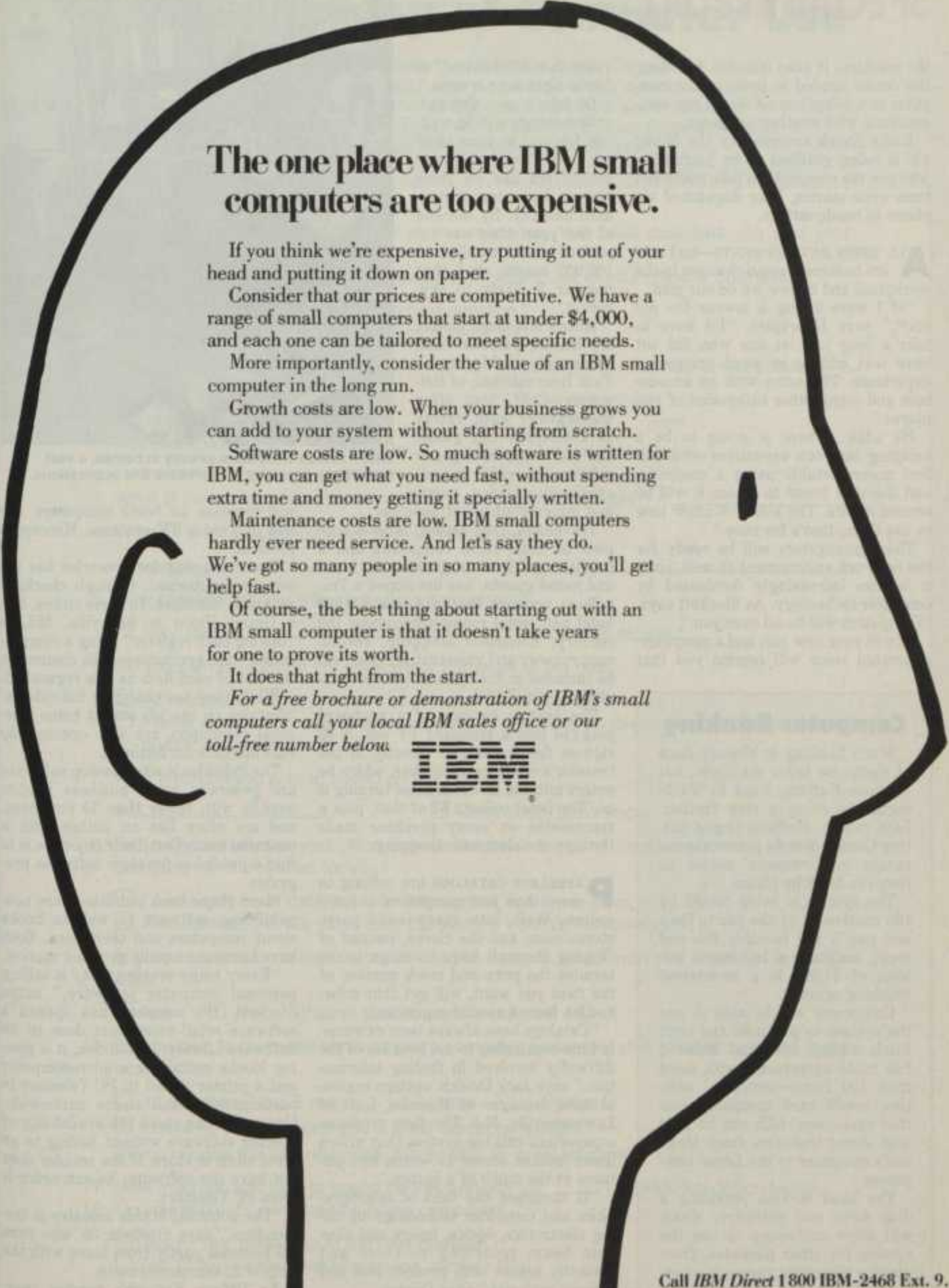
In the future, software expert Larry Stockett says, "computers will be all over you."

the share leader in the education market. In 1978 the company established the Apple Education Foundation, which provides grants to developers of educational software.

According to Glenn Polin, Apple's manager of education marketing, the company will in fact give every school in the country an Apple computer if Congress approves proposed legislation permitting the firm to write off the cost of the donated equipment. California's legislature has passed a similar bill, and the company is now donating equipment to 9,250 schools in the state.

Stockett, who developed what he calls the first microcomputer in 1973 for use aboard U.S. Navy ships, says emphasis on computer technology in elementary and secondary schools is essential. However, he predicts that in





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# SPECIAL REPORT

the machine. It even includes a modem, the device needed to hook up the computer to a telephone so that it can communicate with another computer.

Radio Shack sources say the Model 100 is being grabbed up by journalists who use the computer to take notes and then write stories, later dispatched via phone to headquarters.

**A**LL THESE DEVELOPMENTS—and others to come—mean changes in the workplace and in how we do our jobs.

"If I were hiring a lawyer for my staff," says Henriques, "I'd have to take a long look at one who did not have text editing or word processing experience. The same with an accountant and many other categories of employees."

He adds: "There is going to be a bridging between executives who still feel uncomfortable using a computer and the new breed to whom it will be second nature. The kids will know how to use them, that's for sure."

Those youngsters will be ready for the nonwork environment as well, since it is also increasingly dominated by computer technology. As Stockett says, "Computers will be all over you."

Hop in your new car, and a computer-generated voice will remind you that

"your fuel level is low" or "your right door is open."

Or take a trip. Computer technology will be waiting for you in your hotel or motel room. In-room computers are on their way to becoming a standard amenity. By the end of the year, they are expected to be installed in 100,000 rooms, and that number is likely to skyrocket.

Hotels and large motels are leasing personal computers, supplied by Hotel-Tech International, of Belvedere, Calif., that offer the traveler such extras as a complete city guide, fire and other emergency information, video games, stock quotations, news and information about business.

Travelhost, Inc., Dallas, largest supplier of hotel room computers and a publisher of local magazines for hotel and motel guests, has developed a Travelhost network that will link 500,000 hotel and motel rooms throughout the country. Electronic shopping, restaurant reviews and videotext services will be included in the system, set for completion by mid-1985.

The system consists of a keyboard plugged into a standard TV set. A \$3 sign-on fee is charged directly to the traveler's credit card number, which he enters into the terminal after turning it on. The hotel collects \$1 of that, plus a commission on every purchase made through the electronic shopping.

**P**APERLESS CATALOGS are coming to more than just computers in hotel rooms. Walk into many auto parts stores soon, and the clerks, instead of flipping through huge catalogs to determine the price and stock number of the item you want, will get that information from a special computer.

"Catalogs have always been extremely time-consuming to use because of the difficulty involved in finding information," says Jack Dmoch, eastern regional sales manager of Mnemos, Ltd., of Lawrenceville, N.J. The firm produces a paperless catalog system that offers users instant access to words and pictures at the touch of a button.

"It combines the best of micrographics and computer technology by using electronics, optics, lasers and electron beam recording to store and instantly access both product text and graphic material," says Dmoch.

Computerized catalog shopping also



With 4 million computers already in homes, a vast market has grown up for software and publications.

will increase as home computers are tied into cable TV systems, Henriques predicts.

Even shopping for groceries has become computerized, through checkout scanning machines. In some stores, like a Grand Union in Rockville, Md., a "talking cash register" using a computerized voice synthesizer tells customers the cost of each item as it is registered.

While they are changing individuals' lifestyles on the job and at home, personal computers are also opening up vast markets for business.

The individuals who develop software are generally small business people, usually with fewer than 10 employees, and are often like an author with a potential bestseller. Their objective is to find a publisher for their software programs.

Many major book publishers are now publishing software as well as books about computers and their uses. Both have become a rapidly growing market.

"Every major retailer today is selling personal computer software," notes Stockett. His company has opened a software retail store next door to its Software Library. In addition, it is placing kiosks containing a microcomputer and a printer linked to PC Telemart in participating retail stores nationwide. Customers can check the availability of specific software without having to go from store to store. If the retailer does not have the software, he can order it from PC Telemart.

"The potential in this industry is tremendous," says Stockett, 36, who runs his business partly from home with the help of 32 microcomputers.

As Tiffany Kellogg's teacher says, "This is the future." □

## Computer Banking

Much banking is already done at electronic teller machines, but Madison National Bank in Washington is going a step further. Last month, Madison began putting Commodore 64 personal computers in customers' homes so they can bank by phone.

The system is being tested by 100 customers at the start. They will pay a \$10 monthly fee and must maintain a minimum balance of \$1,000 in a no-interest checking account.

Customers will be able to use the system to pay bills and shift funds among accounts. Madison has made agreements with more than 100 firms—retailers, utilities, credit card companies—so that customers' bills can be paid with direct transfers from Madison's computer to the firms' computers.

The bank is also providing a disk drive and software, which will allow customers to use the system for other purposes, from playing electronic games to working on taxes.



# Reader Survey of Computer Use

Nation's Business wants to know more about your current or planned use of computers for future coverage of this dynamic industry. Please take a minute to answer the questions below about business and home computers. Your answers will be held in strict confidence. Results of this survey will be reported in a future issue.

Please check the response, or write in the response, that best describes you and your computer system.

1. Do you presently have a microcomputer or minicomputer in your office or business?

- ☐ Yes (If Yes, please go on to the next question.)  
☐ No (If No, please skip to question number 10.)

2. Please specify the manufacturer and model of your computer, and how it was acquired.

Manufacturer	Model	How Acquired		
		Own	Lease	Rent
_____	_____	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
_____	_____	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

3. What is the storage/memory capacity of this computer (in bytes)? \_\_\_\_\_

4. What kind of language(s) does your computer use?

Language \_\_\_\_\_

5. How satisfied are you with your computer system?

- ☐ Very satisfied    ☐ Somewhat satisfied    ☐ Not at all satisfied

6. Do you plan to upgrade the software or hardware in the next:

- ☐ 12 months    ☐ 2 years    ☐ 3 years    ☐ 5 years  
☐ I have no plans to upgrade the system. (If you choose this response, please skip to question number 8.)

7. How much do you plan to spend on this upgrade?

\$ \_\_\_\_\_ ☐ Undecided/Don't know

8. Do you personally use your office or business small computer, or does someone else in the company run the system for you?

- ☐ I personally input data, send for information, run the system, etc.  
☐ Someone else in the office runs the system. I do not personally use it.

9. Is your business computer portable? That is, can you take it with you when you leave the office?

- ☐ Yes    ☐ No    (Please skip to question number 12.)

10. Do you plan to purchase a mini or micro computer system for your office or business in the next:

- ☐ 12 months    ☐ 2 years    ☐ 3 years    ☐ 5 years  
☐ I have no plans to purchase a small computer system.  
(If you choose this last response, please skip to question number 12.)

11. How much do you plan to spend on this system? \$ \_\_\_\_\_ ☐ Undecided/Don't know

12. Do you presently own/lease a home computer?

- ☐ Yes (If Yes, please go to the next question.)  
☐ No (If No, please skip to question number 17.)



13. Please specify the manufacturer and model of your home computer, and how it was acquired.

Manufacturer	Model	How Acquired		
		Own	Lease	Rent
_____	_____	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
_____	_____	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

14. What is the storage/memory capacity of your home computer (in bytes)? \_\_\_\_\_

15. How satisfied are you with your home computer system?

☐ Very satisfied    ☐ Somewhat satisfied    ☐ Not at all satisfied

16. Do you plan to upgrade your home computer software in the next 12 months?

☐ Yes (If Yes, please go to question number 18.)

☐ No (If No, please indicate why.)

Why do you not plan to upgrade your home computer system?

\_\_\_\_\_  
(Please skip to question number 18.)

17. Do you plan to acquire a home computer in the next:

☐ 12 months    ☐ 2 years    ☐ I have no plans to acquire a home computer system.  
☐ 3 years    ☐ Undecided

We need the following demographic information in order to compare your computer situation with that of our other readers.

Please check the response that best describes you.

18. Age:

☐ Under 22    ☐ 45-49  
☐ 22-24    ☐ 50-54  
☐ 25-29    ☐ 55-59  
☐ 30-34    ☐ 60-64  
☐ 35-39    ☐ 65 and over

21. Total Household Income

☐ under \$20,000  
☐ \$20,000-\$39,000  
☐ \$40,000-\$59,000  
☐ \$60,000-\$79,000  
☐ \$80,000-\$99,000  
☐ \$100,000-\$299,000  
☐ \$300,000 and over

19. Sex ☐ Male    ☐ Female

22. Job Function \_\_\_\_\_

20. Highest Level of Education Attained

☐ Attended high school  
☐ High school graduate  
☐ Attended college  
☐ College graduate  
☐ Postgraduate study  
☐ Graduate degree

23. Job Title/Position \_\_\_\_\_

24. Company Name and Address

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

WE NEED YOUR INPUT

Please detach  
and return this questionnaire to:  
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# The magazine you are reading is protected by the First Amendment.

## Radio and television are not!

**T**he First Amendment guarantees the rights of free speech and freedom of the press which magazines and newspapers enjoy. But these constitutional rights are effectively denied to radio and television by federal regulations that govern the content of news broadcasts.

**T**he "Fairness Doctrine," which embodies several regulations, is a good case in point. It looks good in theory since it proposes "equal opportunity" for and "reasonable access" to opposing viewpoints.

In practice, it doesn't work. Stations often choose to remain silent on many important issues for fear of opening a Pandora's box of competing claims for airtime. The result is that viewpoints which could contribute to public knowledge and debate go unheard.

**A**ccording to a recent Roper Poll, 82% of Americans now get their news primarily from the broadcast media. For this majority, the press is radio and TV. But these media are not protected by the First Amendment. Could this have been the

intent of our founding fathers? We don't think so.

**W**hen the primary news source for a majority of citizens is denied its First Amendment rights, it's time we all become alarmed. At the Mutual Broadcasting System, we think it's time to give radio and television the same First Amendment protections that newspapers and magazines have enjoyed since 1791. Congress should repeal the so-called "Fairness Doctrine" in the name of fairness.

**Mutual Broadcasting System**





# THAILAND



Thailand blends the modern with the exotic. Bangkok's Oriental Hotel on the Chao Praya River, the bustling seaport of Klong Toey and traditional colorful dancers.

**T**HIS YEAR MARKS the 150th anniversary of the Treaty of Amity and Commerce between Thailand and the United States, the first ever signed by the United States with an Asian country.

Modern Thailand, a nation of 48 million people, is noted for its rapid economic growth, long-term economic stability and a rich, resource-based economy. With the successful completion of the fifth Five-Year Plan (1982-86), this ancient Southeast Asian kingdom, once called Siam, will be transformed into a broad-based industrialized nation. Success of this ambitious plan will depend partly on its robust economic performance thus far and partly on foreign investment.

Traditionally, agricultural products have been Thailand's primary export. Thailand, the Orient's largest food producer and exporter, is called the "Rice Bowl of Asia." In the past two years it has ranked as the world's largest rice exporter, followed by the United States. The nation is also the world's largest exporter of tapioca and third in rubber.

Other major crops are maize, sugar-



cane, tobacco, coffee, cotton, jute, kenaf, soybeans, palm oil and fruits. The world's 10th ranking fishing nation, Thailand is third in the production of frozen shrimp.

Resource-rich Thailand, which ranks third after Malaysia and Indonesia as a world tin supplier, also has deposits of copper, potash, gold, gypsum, antimony, lead, manganese, tungsten, fluorite, ka-



olin, lignite, phosphate and silicon sand.

A major factor in future industrial development is the discovery of natural gas in the Gulf of Thailand. The eastern seaboard sectors in Chon Buri and Rayong provinces have been selected as sites for heavy industries that will use the gas as fuel or feedstock or both.

The average annual rate of growth of the manufacturing sector of gross domestic product has been a robust 10.3 percent since 1970, compared with 7.4 percent for GDP as a whole.

Thailand manufactures textiles, cement, paper, rubber and plastic products, transport equipment, nonmetallic mineral products, machinery and equipment (particularly electrical items), iron and steel products, glass, paint, tires, and plywood and veneers.

In 1980 manufacturing, which employs 10.5 percent of the work force, accounted for 22.1 percent of exports. Thailand expects the manufacturing sector to grow at a 7.6 percent annual rate through 1986, bringing the nation closer to its goal of developing a broad-based industrialized economy. □



# An Open Door for Investors



The Grand Palace is a glowing reminder of the heritage of Asia's oldest existing monarchy.

**T**HAILAND IS FIRMLY committed to the free enterprise system and to the open door policy towards foreign investment," says Prime Minister Prem Tinsulanonda.

Royal Thai government statistics show that, during the 1960-1982 period, about 25 percent of capital investment in industries that receive preferred treatment was from foreign sources. Japan is the leading investor, followed by the United States, Taiwan, the United Kingdom and Hong Kong.

Pro-Western Thailand seeks long-term foreign investment. Although the government does not assist short-term high risk investors, it does offer generous support to long-term investments in specified businesses, which are called promoted companies.

The Board of Investment (BOI), a key agency reporting directly to the office of the Prime Minister, is responsible for implementing governmental policies concerning investment and determines which companies qualify for generous privileges as promoted companies.

Private enterprise, generally unfettered by government controls, has long been recognized as essential to Thailand's economic development. Although establishing an enterprise through BOI is more convenient for new foreign investors, this is purely voluntary. Many businesses function successfully in Thailand without BOI involvement.

**An open door.** Except for a few designated activities in which foreign equity is limited to 49 percent, the Thai government continues to permit foreign majority equity and control of non-promoted firms to undertake any industrial or service activity. Only normal business permits and licenses are required.

**Promotion criteria.** The current list of activities eligible for investment promotion includes almost 100 individual product groups in the agriculture, livestock, fishing, mining, manufacturing and service sectors. The BOI, which maintains a list of eligible businesses, will consider other activities if a promising proposal is received.

**BOI requirements.** A designated minimum investment, the size of which is related to the type of activity, is required of promoted companies. Certain conditions may be imposed by the BOI, such as regulating the amount and source of capital, limiting the nationality and number of shareholders, specifying that local raw materials be used, and limiting the nationality and use of foreign employees. In addition, BOI can stipulate the training and employment of manpower and the distribution and quality of products.

**Guidelines.** In January, 1983, the BOI announced new guidelines for the granting of investment promotion and incentives.

Generally, they indicate that projects with characteristics that will attract particularly generous treatment include those that create jobs for Thais, are located in the provinces, conserve energy or use nonpetroleum energy, provide foreign exchange earnings or savings, and develop basic industries.

Also, shares of foreign equity in a promoted export-oriented project may be in the majority if half, and 100 percent if all, of the production is exported.

And although joint-ventures with Thai majority equity are preferred in domestic market-oriented activities, such factors as size, technology, employment and location may qualify a foreign-controlled project for tax privileges.

**Guarantees and concessions.** A wide-ranging package of guarantees and concessions for promoted companies serve to make growth-oriented

Thailand one of the most attractive investment opportunities in Asia.

- The government guarantees against: nationalization, competition from new state enterprises, monopolization of sales of products, price control, export restriction and duty-free imports by government agencies or state enterprises.

- The government provides these protection measures (subject to justification and needs):

1. A surcharge on foreign products at a rate not exceeding 50 percent of the cost of insurance and freight (CIF) value for a period not longer than one year at a time.

2. Ban on imports of competitive products.

3. Authority in the hands of the Prime Minister, acting as BOI's chairman, to order any actions or tax relief measures for the benefit of promoted projects.

- Permission for promoted firms to



Prime Minister Prem Tinsulanonda (left) with Amcham's W.A. Jackson.

## Amcham Lauds Investment Climate

"The American Chamber of Commerce, Thailand, applauds the spirit of cooperation that the government has adopted to improve the investment climate," says Amcham President William A. Jackson.

The U.S. business community in Thailand is represented through the Amcham, which is affiliated with the U.S. Chamber of Commerce.

Inquiries should be addressed to Thomas A. Seale, Executive Director, Amcham Thailand, 140 Wireless Road, P.O. Box 11-1095, Bangkok, Thailand. Tel. 251-9266. Telex: 82778 KCCOM TH.



bring in foreign nationals to undertake investment feasibility studies, foreign technicians and experts to work on promoted activities, and to take or remit foreign currency abroad.

**Tax incentives.** The following tax incentives are offered:

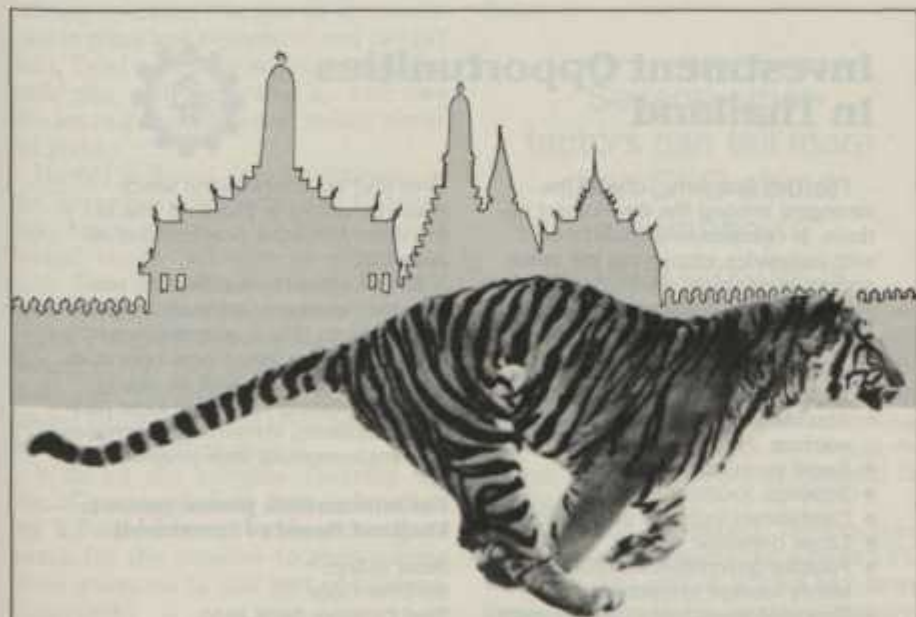
- Duties and business taxes on imported machinery may be exempted or reduced by 50 percent.
- Duties and business taxes on imported raw materials and components may be reduced by up to 90 percent for one year at a time.
- Corporate income tax may be exempted for three to eight years. Losses can be carried forward and deducted as expenses for up to five years.
- Exemption of up to five years on withholding tax on goodwill payments, royalties or fees remitted abroad.
- Dividends derived from promoted firms are excluded from taxable income during the income tax holiday.

**Added incentives.** Additional special incentives are provided for enterprises located in Investment Promotional Zones:

- A maximum reduction of 90 percent of business tax on the sales of products for a period of up to five years.
- A 50 percent reduction of corporate income tax for five years after the termination of the normal income tax holiday or from the date earnings begin.
- An allowance of double the cost of transportation, electricity and water for deduction from corporate taxable income.
- A deduction from corporate taxable income of up to 25 percent of the investment in the costs of installing infrastructural facilities for 10 years from the date earnings begin.

**Exporters' incentives.** Additional special incentives for export enterprises are provided:

- Exemption of import duties and



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"If you are running on a fast track—and Thailand is a fast track—and you start late, you are going to be left behind," says Amaret Sila-On, vice president of the Siam Cement Group.

business taxes on imported raw materials and components.

- Exemption of import duties and business taxes on re-export items.
- Exemption of export duties and business taxes.
- Allowance to deduct from the corporate taxable income the amount equivalent to 5 percent of an increase in income derived from export over the previous year, excluding costs of insurance and transportation.

**BOI services.** Profiles of potential in-

vestment opportunities are prepared for use by the investor, and the BOI will allocate its own staff resources to assist potential investors to obtain additional information. Another major BOI function is to help identify potential joint venture partners for foreign investors.

**Investment mission.** The Board of Investment is organizing an investment mission to the United States, which will be led by the Minister to the Prime Minister's office, His Excellency Suli Mahasatana, and BOI Secretary General Chanchai Leetavorn.

This mission will hold a seminar on Sept. 15, 1983, in New York City. Its objectives are to inform American businessmen of investment opportunities in Thailand, Thai government policy towards foreign investment and the current economic and political situation in Thailand. Inquiries should be directed to Board of Investment, Suite 3443, 5 World Trade Center, New York, N.Y. 10048. Tel (212) 466-1745, Telex 645690 THAICOM NYK. □

*Information supplied by the Board of Investment was used in the preparation of the text. Photos were supplied by the Tourism Authority of Thailand.*

## Investment Opportunities In Thailand



The Thai economy, one of the strongest among the developing nations, is complex and multifaceted with industries employing the latest and most sophisticated technology. Thailand's key investment advantages include:

- Large, skilled and low-cost work force
- Abundant and diverse natural resources
- Rapid economic growth
- Strategic location
- Established industry infrastructure
- Large domestic market
- Positive government attitude towards foreign investment
- Excellent investment development incentives
- Government-guaranteed investment security
- Liberal remittance policies
- International communications facilities
- Economic strength and stability
- A stable government

The Board of Investment has the discretionary power to grant investment privileges and benefits to investors, including a package of incen-

tives and tax concessions which make investing in Thailand one of the most attractive propositions in the world.

The BOI New York office will provide the necessary assistance and information to U.S. businesses who wish to explore investment opportunities in Thailand, as well as aiding them in locating reputable local partners, obtaining investment incentives and implementing their projects.

**For information, please contact:  
Thailand Board of Investment**

Head office:  
16-17th Floor  
Thai Farmers Bank Bldg.  
400 Phaholyothin Road  
Bangkok 10400  
Tel: 270-1400, 270-1410, 270-1420  
Telex: TH82542, TH81159, TH84798  
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New York office:  
Office of The Economic Counselor  
Suite 3443  
5 World Trade Center  
New York, NY 10048  
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Telex: 645690 THAICOM NYK



# Cash Flow Analysis Isn't Enough

You can get an edge on the "experts" in choosing stocks.

By Cornelius J. Casey and Norman J. Bartczak

**B**EFORE YOU BUY or sell a company's securities, you may be inclined to check the firm's financial health by examining its cash flow. After all, financial analysts and policymakers in recent years have heaped praise on cash flow—particularly cash flow from operations, or CFO—as an easy and accurate measure of financial performance. If cash flow is positive and on the increase, it is a very good sign, most analysts say.

In a provocative article on the W.T. Grant Company, the giant retailer that failed in 1975, one financial journal found that the firm's CFO data had been a better predictor of its bankruptcy than traditional income-based financial ratios or movements in the company's stock price.

(CFO is that cash left over from recurring operations to pay dividends, invest in plant and equipment and pay off debt. Total cash flow includes operating cash plus cash generated by activities like issuing securities and selling physical plant.)

Harold Williams, former chairman of the Securities and Exchange Commission, has remarked, "If I had to make a forced choice between earnings and cash flow information, today I would take the cash flow information."

The Financial Accounting Standards Board, the private sector policymaking body, has proposed requiring publicly traded firms to expand their disclosures of cash flow information.

With all the ballyhoo favoring the use of past cash flow data in forecasting a firm's future, it only makes good sense for the investor to start paying more attention to this sort of information, right?

Not necessarily.

We recently completed a study of 300 companies to test the value of CFO in predicting company health. Our findings do not support the notion that cash flow information is a superior indicator

of a firm's future performance. On the contrary, more conventional analysis may be better.

Using CFO data, we compared such well-known bankruptcies as Saxon Industries, AM International, Braniff International Corporation and the McLouth Steel Corporation with non-bankrupt firms from similar industries. For as many as five years prior to the bankruptcy filing date, the two groups differed significantly in cash flow.

However, these differences failed to help us make reasonably accurate predictions about the firms; as a result, we misclassified a large percentage of financially sound companies as bankrupt. The highest level of predictive accuracy was 65 percent—which pales by comparison with the nearly 85 percent accuracy achieved with more conventional data.

## Several other factors can tell more than CFO about a company's survival prospects.

It seems there are much more important determinants of a company's survival prospects than CFO—including the level of indebtedness and liquid reserves, and accessibility of external financing.

One should not expect, for example, that a company generating a large CFO will have less risk if it also has large levels of debt in its capital structure. Similarly, the external capital markets may be willing to finance a shortfall in CFO if they have a favorable opinion of a firm's growth prospects. High-technology companies have been well rewarded by the stock market even though many of them have been cash-poor in an operating sense.

Many companies have salable capital assets or large levels of liquid assets that can sustain them through hard times. Take Pan American World Airways and Braniff, for example. Both

companies experienced severe financial pressures and predominantly negative CFOs. Yet Pan Am survived and Braniff filed for bankruptcy.

In part, Pan Am's survival is attributable to its ability to obtain \$1 billion from the sale of two of its large, nonairline capital assets—its International Hotel subsidiary and the Pan Am Building. Braniff did not have significant salable nonairline capital assets, or it too might have endured.

**D**O THE LACKLUSTER results for CFO mean you should leave financial analysis to the "big boys" and their sophisticated techniques? Hardly.

In fact, because so many of the so-called experts have convinced themselves that cash flow data are infallible, the investor who is aware of the shortcomings of these data may have an advantage.

No single number will forecast with complete accuracy. However, giving simultaneous consideration to the many financial dimensions of a firm's performance—profitability, leverage, liquidity, cash balance and turnover—is a useful first step.

Your analysis should also encompass a firm's overall performance. Probe the notes in the financial statements for anything suspicious (any recent change in accounting or depreciation methods, for example—they may make a firm look better when, in fact, nothing has changed). Estimate its growth prospects with respect to its competition, size up the security market's reaction to the firm, and examine the company's total—as opposed to only its operating—cash flow.

Perhaps most important, evaluate the management's track record and its business philosophy for the future. For example, does the chief executive officer's letter to shareholders indicate management intends to branch out into some area that has growth potential?

If all this sounds as if it requires a much greater investment of your time than analyzing a few cash flow numbers would, you are right. For those who believe that good things are not gained easily, however, this should come as no surprise. □

CORNELIUS J. CASEY is associate professor at the Amos Tuck School of Business Administration, Dartmouth College. NORMAN J. BARTCZAK is assistant professor at Harvard Business School.





America must increasingly rely on coal and nuclear energy to generate electricity, says the Committee for Energy Awareness.

**U**NABLE TO obtain long-term assurances of reasonably priced, adequate electricity supplies at home, major U.S. aluminum producers are now considering new plant sites in Brazil, Australia and other foreign countries.

Inability to guarantee sufficient electric power in the future cost a Southern state a major new industrial facility planned by a European company.

Those are but two early warning signals of one of the most significant yet unrecognized problems facing the nation today: The possibility that electric power shortages could curtail production and employment over the next two decades unless corrective action is begun in the next few years.

The problem's dimensions are already apparent. New generating capacity will be needed during the next 20 years to help provide employment for the 10 million Americans now jobless and the 24 million expected to join the work force. As of now, the utility industry is constructing only half the number of plants that may be needed to supply electricity for such growth.

There are many complex reasons for this bleak outlook, but the basic obstacle to adequate electricity supply is the lack of national consensus on the scope of the problem and the steps that must be taken to correct it.

Says the U.S. Committee for Energy Awareness: "An abundant supply of electricity alone cannot solve our basic economic problems. Because of the growing importance of electricity to our economic health, however, they are not likely to be solved without it."

## Don't Pull the Plug On Economic Growth

A panel warns that the nation must build more power plants if it wants a bright future.

The committee is run by a board of executives from utility companies, firms serving the industry, financial institutions and major users of electricity. It has launched a campaign to alert Americans to the realities of the current energy situation and to the long lead time necessary for solutions.

Bringing those realities home to the public, the committee believes, is the key to achieving the national consensus needed to begin dealing with the problem. The challenge, one of the toughest the industry has faced, stems in large part from traumatic experiences of the last decade.

Oil embargoes and environmental demands triggered government policies that were costly and frequently contradictory. Electricity projections by utilities resulted in extensive construction projects to meet demands that evaporated when the economic recession hit.

Now, at a time of ample supplies, the industry needs to make the case that drastic action will be needed soon to head off shortages many years into the future. That case has three main elements:

- Electricity use grows in direct proportion to economic growth, and an adequate supply is crucial to maintaining the expansion needed to create jobs and provide for an increasing population.
- The average lead time to put a U.S. generating plant on line is 8 to 14 years, so the time is already drawing close for planning even those that must be ready to serve national needs in the late 1990s.

Economic recovery in the near term and continued growth over the long term will result in "a steadily increasing demand for electric power," the Committee for Energy Awareness says. It adds:



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"To provide that amount of electricity, U.S. utilities have only two sources available to generate large-scale, reliable supplies on an economical basis: coal and nuclear energy."

Ironically, those two energy sources—more and more important factors in the generation of electricity—are targets of environmental groups that assail coal as a pollutant and nuclear power as a threat to public safety.

**C** OAL AND NUCLEAR now account for two thirds of the fuel used in electric utility generating plants and will be 75 percent of the total by 1990.

It frequently appears that the public policy argument before the nation is about whether nuclear power should be used at all. Actually, the committee points out, "nuclear power has become a significant contributor to our electricity supply."

Nearly 13 percent of America's electricity is a product of nuclear energy. Nuclear energy has already passed oil and will soon pass hydro and natural gas as a source for electricity genera-

Summing up, the committee says, "The coal and nuclear power plants now in operation and under construction are critically important to the nation's economy. And, except for the most conservative projections, new capacity beyond that which is already under way will be needed to help meet long-term economic and societal needs."

Industry statements of that type often produce from environmental advocates the response that a combination of conservation and alternative sources of energy, such as solar and wind power, will be adequate to meet national needs without expanding use of coal or nuclear energy.

Utilities have announced plans to add over the next decade about 95 electric power plants using geothermal, solar, wind or wood energy. They will have a total capacity of about 3,300 megawatts, the equivalent of three full-sized nuclear plants or six coal-burning plants.

Those alternative sources are beginning to play an important role in the energy mix in some parts of the coun-

stance, the efficiency of insulation, storm windows and household appliances. He refers to this as the "unreliability" of voluntary conservation that depends on independent actions by millions of electricity users.

In the final analysis, the committee says, Americans must begin developing policies that will assure sufficient electricity to sustain the economy and standard of living into the next century.

Those policies include licensing reform to reduce the length of time between determining that a nuclear plant is needed and starting it up. In Europe and the Far East, this process takes about five to seven years, about half the time required here.

**A** LTHOUGH licensing reform would not—and should not—call for easing safety goals, says Finger, it should put limits on "the interminable hearings in which government agencies lean over backward to make sure that all who want to be heard get an opportunity, no matter how irrelevant or frivolous their arguments are." Licensing hearings, he says, should be confined to determining "what the issues involved really are and resolving them."

The length of the licensing process and construction times will become a more critical issue as the nation becomes increasingly aware of the gap between utility construction plans and anticipated demand, Finger says.

By the end of the century 150 new plants are now likely to have been constructed under present plans, but even a 2 percent annual growth in the gross national product would require the equivalent of 130 to 150 additional plants in the same period, according to Department of Energy estimates.

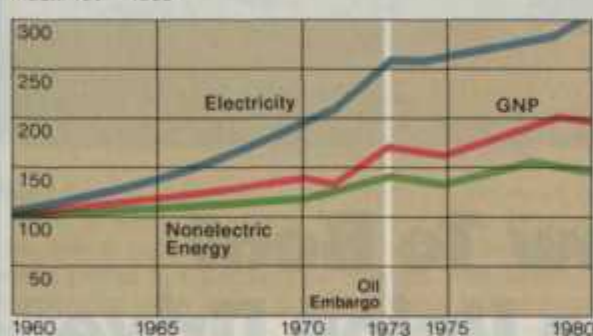
How will Americans close the gap? Individual citizens and local governments, the energy committee advises, need to determine on a grass-roots basis how they can help their local and regional utilities forge the national policy consensus on environment policy, licensing and other factors involved in supplying electricity to a voracious economy. The process would then move to the state and national scene.

The committee is appealing particularly to business people to become active at the grass-roots level in exploring issues involved in the electric power dilemma and in alerting others to that situation.

"One could argue that major electric power decisions in the future could become, in effect, policy decisions about the level and makeup of our national economy," the Committee on Energy Awareness sums up. "But a better appreciation is needed of the growing importance of electricity and of the long lead times required to assure its availability." □

## Average Annual Growth Of Gross National Product and Energy Use

Index: 100 = 1960



Source: Department of Energy



tion, ranking second only to coal for the foreseeable future.

By 1990, 20 percent of total electric power used in this country will be nuclear, and the amount generated will equal the nation's entire electricity consumption as recently as 1956.

Though coal remains a favorite target of environmentalists, its use in electric power generation has soared from under 200 million tons in 1962 to nearly 600 million tons last year.

And, the energy committee says, "the 15.9 billion tons of coal consumed between 1952 and 1983, primarily by electric utilities, is less than 7 percent of recoverable reserves."

It adds: "The estimated 473 billion tons of coal that are potentially available on an economic basis with existing technology... are sufficient to meet domestic coal demand for about 300 years at 1981 consumption levels."

try, the committee says, but they are still "decades away from becoming a major national source of economically competitive electric power."

What role can conservation play? It is already playing an important one, the committee says, adding:

"Conservation efforts and improved efficiencies lowered the growth rate in the use of electricity per average household to only 0.8 percent a year."

Harold Finger, president and chief executive officer of the U.S. Committee for Energy Awareness, points out that individuals voluntarily launched extensive conservation efforts in a direct response to increases in the cost of energy.

But, he adds, it would be unrealistic to expect that the American people would accept any government-mandated conservation program in which homeowners and businesses had to conform to official directives on, for in-



**T**HE MOST significant trend in labor-management relations today is the union drive to organize female office workers. As the focal point of their effort, unions are emphasizing issues that are unique to office workers and to women.

The drive really got under way almost 10 years ago, when health care amendments to the National Labor Relations Act spurred unionization of female health care employees. By now, more than a dozen trade unions have set up clerical/white-collar divisions whose primary organizing targets are female.

Large numbers of female employees have, of course, been working for decades in factories and stores covered by collective bargaining agreements. But the current situation is different.

The new organizing effort has coincided with awakening recognition by women of their rights, and with the passage of laws protecting those rights. Women entering the labor force today are not only conscious of their rights, they are better educated and better prepared to assume responsible positions than ever before. Employers have stopped asking female applicants, "How fast can you type?" and started asking, "How well can you make decision?"

While these social changes have been occurring, our economy has been undergoing its most fundamental shift in 200 years—from domination by manufacturing to domination by service industries. Jobs are moving from the factory floor to the office, traditional domain of female workers. Hundreds of occupational opportunities have opened to women in the office, many of them in jobs that did not exist a few years ago. Men have neither better training for these jobs nor an entrenched tradition of holding them.

Most unions were totally unprepared for the dislocation caused by the massive change in the economy. Hundreds of thousands of unionized factory jobs have been permanently lost. Now, as unions adjust to the new economic realities, it is no wonder that they are so interested in female office workers. Organizing women has become a matter of survival for them.

The allegiance of millions of female workers is at stake. Over the last 20 years, the number of working women in the United States has risen 21 million, or 95 percent. Women now make up 43 percent of the work force; by 1996, it is estimated, they will make up

MARTIN F. PAYSON is a partner in the national labor and employment law firm of Jackson, Lewis, Schnitzler & Krupman.



## How To Beat The Union Drive For Female Office Workers

By Martin F. Payson

47 percent. To put it another way, the labor force is expected to grow 13 million between 1985 and 1996, and 9 million of the new workers will be women.

Unions are beginning to combine standard organizing techniques with approaches that are much more difficult for employers to combat, because they appeal to the emotions.

When unions talk about women employees' being treated like "girl Fridays" or "coffee makers," that is an emotional appeal. When unions talk of trying to achieve, through collective bargaining, "comparable pay for jobs of comparable worth," that, too, is an

emotional appeal. Likewise, when unions talk about protecting women from sexual harassment.

(Bear in mind that over 70 percent of the women who responded to one poll said that at one time or another they had been subjected to sexual harassment on the job.)

The unions are playing up other issues with high emotional content: sexual discrimination, lack of career opportunities ("dead end jobs"), child care and so on. One union uses this pitch: "If you don't organize in 1983, maybe in 1993 your daughter is going to be making the minimum wage because you





PHOTO: MARCELO MONTECINO-PICTURE GROUP

**Unions have begun augmenting traditional organizing efforts with appeals to the emotions.**

Ultimately you should realize that if you, the employer, voluntarily provide female employees with what the unions promise but often cannot deliver, you will achieve two objectives: You will treat your employees fairly, and you will create a workplace atmosphere where unions are irrelevant because they have nothing to offer.

The starting point is to have your chief executive officer or policymaking body put down, in writing, the company's exact position on unions.

You would be surprised how therapeutic an exercise this is. It focuses attention on the challenge presented and makes the organization deal with it.

That statement of policy should be disseminated through all levels of management so there is a clear understanding of the company's strong commitment to positive employee relations and union avoidance. The statement should also be communicated to all your employees.

In the long run, it will be they—not you or the union—who decide whether having a union is in their best interest.

One person should be responsible for implementing a positive employee relations program. There is an individual outside your organization, the paid professional union organizer, who is spending all of his or her time planning how to challenge your company and win your employees' loyalty. Likewise, there should be someone within your company who is in charge of management's efforts to make a union irrelevant.

That person should be responsible for auditing your relations with your female employees. A company must discover on its own where it is vulnerable to a union's appeals to women. If you do not audit your practices and policies, the union will do it for you—and if it finds you vulnerable, you will be targeted.

Such an audit should include comprehensive reviews of:

- Employment practices, to ensure compliance with statutory prohibitions of sex discrimination in hiring, training, promotions and pay.

If there is such compliance, this denies the union the argument that only

through the union can a woman achieve fair treatment on the job. It also demonstrates to the employees—male and female—that your company is giving them respect and recognition, which can never be legislated or mandated in a collective bargaining agreement.

- The company's response to complaints of sexual harassment.

The company should designate one person to whom all allegations of sexual harassment should be brought. Further, all levels of management should be told that sexual harassment will not be tolerated, as a matter of company policy.

- Benefit plans and the administration of personnel policies, in particular leave and scheduling practices, to ensure nondiscriminatory application.

Reasonable adjustments to accommodate the special needs of working mothers (and fathers) should be considered. Flextime, job sharing, day care facilities on the premises—none of these programs is necessarily appropriate for a particular employer, but all are worthy of consideration.

- The effectiveness of two-way communication in the company.

What can be more satisfying for a person than to work for a company that says, in word and deed, "We care about you, your goals and problems, and your ideas and suggestions, and we want to hear directly from you. We will provide you with a variety of opportunities to tell us what you have to say, and we will listen and reply in a responsible manner." If you wish to make unions irrelevant, you must create such an environment.

- How well supervisors are educated as to their rights and responsibilities when confronted with union organizing efforts.

Supervisors should be trained in techniques for maintaining union-free status, including how to counter union card solicitation legally. Even though unions hire people who are professional organizers, conduct extensive training sessions on how to organize, and publish books and manuals on how to sign up employees, management often fails to spend the time necessary to teach supervisors what to expect if an organizer shows up.

These steps can be summarized as commitment and communication—commitment to eliminating issues that can aid the unions and communication of your concern for each individual. The employer who puts those principles into practice will usually find that female office employees see no need to turn to a union to protect their interests. □



To order reprints of this article, see page 81.

didn't do what was needed to prevent it."

Here is what this means for you if you are a union-free employer who would prefer to maintain your current relationship with your female office employees:

- You must not assume that just because employees are female and work in an office, a union will have no appeal for them.

- You must not talk yourself into believing that no issues exist that make your company vulnerable to a union organizing effort.

- You must recognize that a challenge does exist and that the time to take effective steps is now—before your company is targeted for union organizing.

**ASK YOURSELF** these questions: Is your company committed to maintaining a union-free workplace? If so, why? Of what benefit is it—to the employees, to management, to the shareholders, to the community—that your company continue to function union-free?

Such questions should lead you to think about why employees ever seek the intervention of a third party in the workplace.





## Government vs. Business Privacy

The Lone Steer stars in one of dozens of Supreme Court cases that could affect your firm.

By Tony Mauro



PHOTO: ROBERT MORONG

**T**HE LONE STEER restaurant in Steele, N.D., is best known for its prime ribs. But by next year, it may also be known for its key role in a battle between small business and the Labor Department—a battle that has gone all the way to the Supreme Court.

The outcome could alter the way in which Labor conducts investigations of wages and hours under the Fair Labor Standards Act. It made 73,691 such investigations last year, assessing \$49 million in minimum wage underpayments and \$80 million in overtime underpayments against employers.

At issue is whether Labor can force companies to turn over their books without a search warrant. The case is one of several relating to the privacy of business records, and one of dozens affecting business in general, that the Supreme Court will consider in the term that begins, in accordance with tradition, on the first Monday in October.

In its last term the Court decided cases involving sex-based discrimination in pensions; the power of Congress to veto actions of regulatory agencies and the state role in nuclear power. It has a full plate of equally wide-ranging issues before it this year. Among them is one the Court did not resolve in its

last term—whether home videotaping of movies violates federal copyright law. The question will be reargued sometime this term, making a decision unlikely before 1984 and increasing the pressure on Congress to resolve the issue legislatively.

Some other questions the Court is expected to answer this year:

- When can companies use the protection of the federal bankruptcy law to terminate labor contracts?
- How specific must the Equal Employment Opportunity Commission be when it charges a company with unlawful employment discrimination?
- Can a parent company be guilty of "conspiring" with one of its wholly owned subsidiaries in violation of the Sherman Antitrust Act?
- Are federal laws against sex discrimination applicable to a partnership like an accounting firm when it does not invite a woman to be a partner?

Here are details of cases to watch:

**Business privacy.** When Al Godes, a wage and hour compliance officer, called to arrange a visit to the Lone Steer, its lawyers put off the visit and asked what the scope of the investigation was to be. When the government failed to specify that, the restaurant refused the government access without a search warrant signed by a judge.

"These investigations can tie up your

business for weeks and months, and you don't know what they're looking for," says the Lone Steer's attorney, Richard Peterson of Fargo, N.D., adding that the investigators basically are on "fishing expeditions" and "a search warrant would force them to narrow and tailor their request for records."

The government came up with an administrative subpoena, a document that, unlike a search warrant, requires no judicial action. Again the Lone Steer refused to admit the investigators, citing a 1978 Supreme Court decision that Occupational Safety and Health Administration inspectors need search warrants to enter factories.

Wage and hour investigations have been challenged before, unsuccessfully, but this time a federal judge held that a warrant was needed. The judge ruled unconstitutional that part of the Fair Labor Standards Act authorizing administrative subpoenas—setting the stage for the Supreme Court review in *Donovan v. Lone Steer, Inc.*

"This case has wide ramifications beyond the Fair Labor Standards Act," says Peterson, noting that administrative subpoenas are used by the EEOC, the Federal Trade Commission and other agencies. "They allow the agency to do indirectly what the OSHA decision says they can't do directly without a warrant."

TONY MAURO is the Supreme Court reporter for Gannett News Service.





Owner Susie White of the Lone Steer: When her restaurant turned away a wage and hour compliance officer, it raised an issue that has wide ramifications.

The Labor Department, in its brief to the Court, expressed worry that it would lose what it calls "a long-established investigative tool that is essential to enforcement of an array of important federal statutes."

Two other cases the Court will hear could result in other federal agencies' being deprived of access to business records in certain circumstances.

In *United States v. Arthur Young & Company*, the Internal Revenue Service is seeking to preserve its right of access to tax accrual working papers prepared by an independent accounting firm when IRS is investigating one of the firm's clients.

IRS sought those papers from the Arthur Young firm during a tax audit of the Amerada Hess Company. The accounting firm refused, and a federal court of appeals panel agreed that the documents "should remain confidential in order to protect the reliability of the independent audit process."

But IRS asserts there is no privileged status for such papers and says the decision threatens to impede its investigations of public corporations.

Stephen Bokart, a lawyer with the National Chamber Litigation Center, thinks giving IRS access to these papers is "fundamentally unfair. They are confidential materials and there is no reason IRS needs them."

Bokart thinks that business has a stake in another privacy case before the high court—*United States v. John Doe*.

In this case, a federal grand jury investigating tax and bribery allegations subpoenaed a wide range of ledgers, payroll records and bank statements related to an individual's business. The individual (unnamed in the court papers) fought the subpoenas and convinced two federal courts that producing the records would amount to forced self-incrimination, which is barred by the Fifth Amendment to the Constitution.

"Any search into a company's business records must be as narrowly focused as possible," says Bokart. "We recognize the need to investigate, but we're against fishing expeditions."

**Bankruptcy and labor.** When a New Jersey building supplies firm named Bildisco got into financial trouble in 1980, it tried to cut labor costs in a hurry—it laid off some workers, and for those who remained, it canceled promised raises and stopped payments into pension and benefit funds. Three of the remaining employees were members of the Teamsters union and covered by a union contract.

In April, 1980, the firm filed under Chapter 11 of the federal bankruptcy law, and later that year it sought to

cancel its contract with the union. Operating nonunion, company executives said, would save \$100,000 a year and help the firm get back on its feet.

Under traditional standards, a company in bankruptcy can back out of a union contract only if it can show that it is in imminent danger of collapse and that the jobs in question would otherwise be lost.

But in Bildisco's case, the U.S. Court of Appeals for the Third Circuit adopted a more flexible approach that has unions in an uproar and corporations keenly interested. The court said that all a company must show is that a contract is "burdensome" and that tearing it up would aid the company's recovery.

The union and the National Labor Relations Board appealed, and the Supreme Court has agreed to hear *NLRB v. Bildisco*.

At a time when filings for bankruptcy have reached record levels, the Teamsters told the Court, "If rejection of collective bargaining agreements is easily permitted, more and more businesses will abuse the procedures to rid themselves of labor contracts."

But the National Chamber Litigation Center says that adopting the union view would be "seriously unfair to non-union personnel" by forcing them to bear the brunt of bankruptcy reorganizations.

The center also says the unions still have the right to strike and to negotiate new contracts, and it adds that the bankruptcy courts would assure that the companies act in good faith.

**EEOC.** At Shell Oil's Wood River, Ill., refinery, only two charges of race or sex discrimination had been filed with the EEOC in 10 years, and both had been dismissed. The facility employed 1,757 people in 1979, of whom 7 percent were black and 7 percent female—percentages that had risen even as layoffs had cut the work force 23 percent.

Yet in that year, the EEOC filed charges against Shell, charging the company with unlawful sex and race discrimination at the plant. The commission listed no particulars; Shell was charged under internal EEOC guidelines that allow the commission to attack "systemic" discrimination "that may not be readily identifiable on the basis of individual complaints alone."

Shell fought the charges, and a federal appeals court agreed that the commission had not established "a factual basis for the charges." In *EEOC v. Shell Oil*, the commission asserts that filing a charge merely serves to place



the company on notice and need not be specific. Says the National Chamber Litigation Center's Bokor: "If you don't know why you are being charged, it's pretty hard to defend yourself."

**Antitrust.** The Copperweld Corporation and its subsidiary Regal Tube Company were found guilty of trying to block Independence Tube Corporation's entry into the structural steel tubing market by discouraging potential customers from doing business with the new firm. Independence was started by a former employee of Regal, and Copperweld said it had only tried to keep the new company from using its trade secrets.

But the jury disagreed and set damages at nearly \$2.5 million. Because the jury also found that Copperweld and Regal had engaged in a "conspiracy" to damage Independence, those damages were tripled to roughly \$7.5 million.

The question of whether a company and one of its subsidiaries are separate enough to be able to "conspire" in the same way two independently owned companies might have produced confusion in the courts and uncertainty in business for years. The Supreme Court, in *Copperweld v. Independence*, may end the confusion, and business groups are telling the Court it's about time.

The American Iron and Steel Institute notes that its six biggest members alone have a total of 145 wholly owned subsidiaries and says that uncertainty over the issue has created "difficult problems." The institute, the Chamber Litigation Center and the National Association of Manufacturers are all asking the Court to reject the idea that companies and their subsidiaries can conspire in violation of the antitrust laws.

For its part, Independence argues that what happened to it is "a classic example of the kind of concerted predatory activities and adverse competitive effects that the antitrust laws were intended to proscribe."

**Partnerships.** With the likes of former Attorney General Griffin Bell among its partners, the Atlanta law firm of King & Spalding is well known in legal circles. Now it is involved in a sex discrimination case that could affect not just law firms but all kinds of business partnerships.

Elizabeth Hishon, when she was hired in 1972, was only the second woman associate in King & Spalding's 87-year history. After five years—the normal apprenticeship—the firm decided not to invite her to become a partner. And under the firm's "up or out" poli-

cy, she was told she would be terminated at the end of 1979.

Hishon filed a complaint with the EEOC, which has taken her side in the dispute. A district court dismissed her complaint, concluding that partners in a law firm have a "constitutional right to freedom of association."

An appeals court agreed, setting the stage for the Supreme Court to hear *Hishon v. King & Spalding*. Hishon asserts that the partnership is an employer like any other and is covered by Title VII of the 1964 civil rights law. That law prohibits discrimination in "terms, conditions or privileges of employment," which Hishon says includes partnership decisions.

Women's groups have urged the Court to overturn the lower court rulings, calling promotion to partnership "the last major barrier to true equality" in the legal profession—especially now that women make up more than a third of law school students.

A decision in the case is likely to affect more than America's nearly 30,000 law partnerships, which generate over \$10 billion in income annually. Many stock brokerage houses are organized as partnerships, as are accounting firms—including all of the "Big Eight" accounting houses. □

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WNB-93



# A Salute to Americans At Work

**M**OST OF THE PAINTINGS on these pages may look like they are out of the past, but they are very much of the present.

The paintings are from an "America at Work" collection commissioned from artist Paul Collins by Amway Corporation. They go on permanent display Labor Day weekend at a hotel not far from the firm's headquarters, the Amway Grand Plaza in Grand Rapids, Mich. They were first shown publicly last May at the Labor Department in Washington.

Every scene here—though not every scene in the collection, which includes 25 in all—features someone who works in the Grand Rapids area.

The men in the two bottom pictures are employees of a small foundry. The grizzled man on

the tractor, which seems almost as old as he is, runs a small farm. The woman is a self-employed seamstress. The man shoeing the horse is a farrier whose business prospects have been brightened by the current popularity of rodeos.

Collins, 46, is a self-taught artist who produced his first major series of paintings, "Black Portrait of an African Journey," in 1969. He says of the "America at Work" series:

"With all the talk about high technology, we tend to forget that people like these still exist. And we'd better hope that they continue to exist, because technology will never be able to fill all the needs that they do. The paintings are a celebration of small entrepreneurs of all kinds, America's backbone."

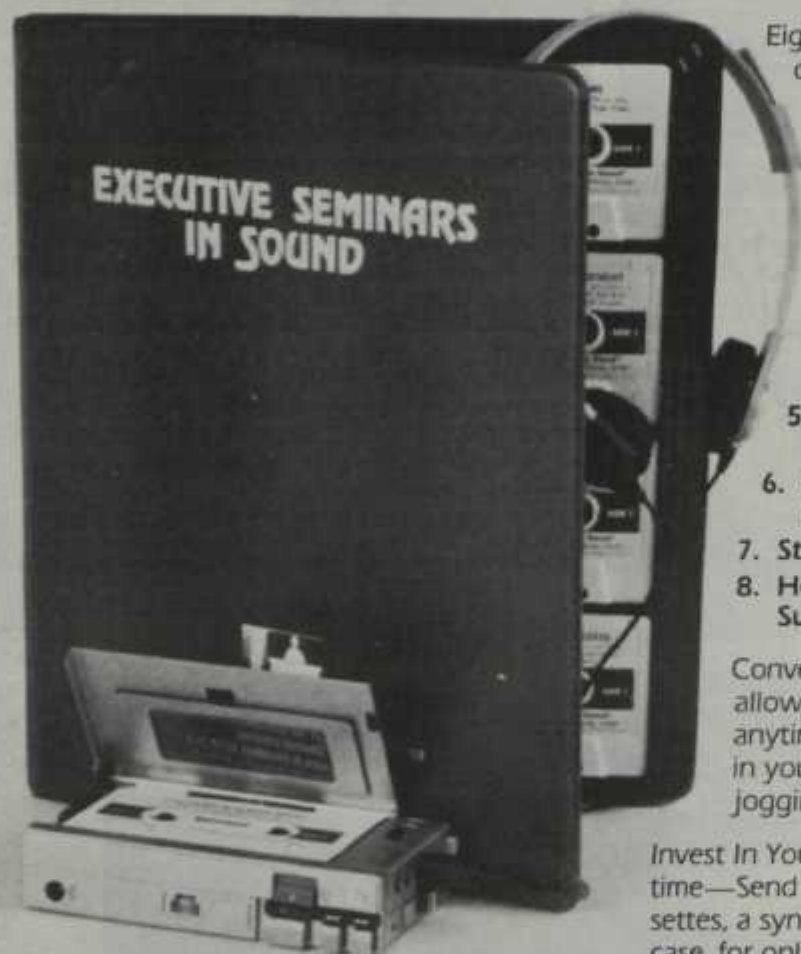








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**O**WNERS AND sole employees, Ben Wiskowski and his wife worked 14-hour days for many years to make their small electrical supply business grow.

Eventually, the business was successful enough to have 15 employees. That meant Wiskowski could delegate some of his tasks, and he began spending more time on job sites. His wife stayed home to raise their children.

At the office, an employee took care of accounts payable, paying incoming invoices promptly to ensure a continuing good credit rating for the firm.

Trouble was, not all the invoices were authentic. No merchandise had ever been sent to the supply firm by one invoice mailer; he had found the firm's name in a business directory and regularly sent it phony invoices.

Before Wiskowski discovered the fraud, his firm had paid out more than \$7,000 on phony bills, not an insubstantial amount for the small company—which, in this case, is a composite of several such firms.

Happens all the time, says Chief Postal Inspector Kenneth H. Fletcher in Washington.

"Dollar losses on phony invoices run into the millions," he says. "These schemes, in which no merchandise has ever been sent, get 15 to 20 percent of the phony invoices paid."

"If these fraudulent operators send you a phony invoice and you pay it," Fletcher says, "they are going to keep sending you phony invoices. We have instances where a business has been sent 30 or 40, before someone got suspicious and started checking."

Many phony invoices mimic typical legitimate invoices. For example, Fletcher says a business may have taken out a Yellow Pages advertisement, and in comes an invoice that appears to have been sent out for Yellow Pages advertising. The swindler has duplicated the appearance of a legitimate bill. Guarding against such fraud requires an alert employee or employer, someone familiar with which bills have been paid, with the legitimate invoice mailer, perhaps with the mailing address of the firm sending the bill.

One trick swindlers use to make an



Chief Postal Inspector Kenneth H. Fletcher warns business: Never pay a bill unless you have the goods to back it up.

## Swindles That Come in the Mail

Phony invoices, phony directories and other scams are draining millions from business every year.

By Del Marth

invoice appear authentic is to address it by name to an employee, often a firm's supplies buyer.

"Some fraudulent operators know that some businesses are smart enough not to pay an invoice unless there is the name of a person in the firm on the bill," says Fletcher. "So they are sharp enough to get a bona fide name and put it on the bill, maybe someone's name they got from a directory or from an inquiring phone call."

A firm's bookkeeping department may pay such an invoice automatically. Or a busy supplies buyer may routinely initial the invoice to approve payment without determining whether such merchandise was ever ordered.

Not surprisingly, the larger the business, the easier to victimize it with pho-

ny invoices. "These frauds can creep in when there is some division of duties in a firm and where internal controls are lax," says Fletcher.

Legitimate businesses often find customers in directories. Swindlers use the same directories to find victims. From these directories a swindler can glean a firm's name, address, phone number, size, type of business, even employees' names.

Because directories are invaluable to business, swindlers find them an excellent vehicle for fraud; the directories involved are of course not the reputable, long-published directories business people are familiar with, but are instead publications that most have never heard of.

Postal officials continually warn small businesses about buying advertising space, or a listing, over the phone in directories they know nothing about. Often such directories do not exist and never will. In some cases, Fletcher says, the caller may actually publish the directory, but it may well be worthless.

Thousands of businesses fall victim to the directory scam, says Postal Inspector Wayne B. Kidd, who heads the fraud investigation branch. Many of them mail in checks for advertising space or a listing in response to an invoice that is sent out long before the directory is published, if it ever is.

Some businesses fall victim to fraud because of that common human weakness—the inability to resist an apparent bargain.

A recent nationwide swindle preyed on businesses eager to buy toner (ink) for their copy machines at a wholesale price. Before undercover postal inspectors worked their way into the operation and broke it up, the fraudulent operators had netted more than \$8 million.

**T**HE SWINDLE EVOLVED from an inventive and reasonable story—one that could also have been checked easily. Representing himself on the phone as an office supplier, the swindler (or phone operators working for him) would call a business and obtain the brand name and model number of its copy machine.

During the conversation the caller



would solicit the name of the firm's buyer of supplies. Then, talking with the buyer, the caller would explain that toner had been shipped to a firm nearby where there was an identical copy machine but that the driver had found the business had changed machines. Rather than have the shipment driven back to the warehouse, the caller would explain, the toner was being offered to a nearby business with the right machine, at a wholesale price. Would the supplies buyer like to have the toner?

For scores of businesses, it was too good a deal to pass up. They paid dearly for the bargain.

Postal officials say the toner was an inferior type that fraudulent operators had taken options on by the carload. Even at the "wholesale" rate quoted, it was priced four times over its actual worth, they say.

In addition, the toner fouled many machines. And with brazen confidence the swindlers sent some firms two invoices for the same shipment. Some of them, because of inefficient internal controls, paid twice for inferior merchandise.

**F**LETCHER SAYS fraudulent operators often misrepresent themselves on the phone as being with a large, well-known corporation. Two office supply companies, for example, recently made nationwide solicitations from offices in New York and Los Angeles, contending they were calling for a division of IBM. They explained that they were authorized IBM agents, that they sold typewriter ribbons and other office supplies for IBM and that they sold such quality items without the IBM logo at a reduced price.

Of course, it was not true and any business that bit got an invoice almost immediately. When the bill was paid and the merchandise came, it was inferior if not useless.

"Such schemes vary little," says Fletcher. "If toner gets hot, the fraudu-



Busy employees who pay without checking are favorite targets of mail swindlers who send phony invoices.

lent operators switch to directories; if directories get hot, they sell specialty items."

And says Fletcher, specialty items have been a favorite fraud device recently.

Swindlers phone a business, offering say, Papermate pens, with the firm's name printed on them and at a beckoning low price. The pens are, of course, not Papermates or of Papermate quality. In fact, they are so inferior a writing instrument, says Fletcher, that some businesses taken in are too embarrassed to distribute them.

Some businesses that order the pens never do receive them; instead, they get a quickly mailed invoice, which they pay, and then wait in vain for the merchandise.

A Fletcher axiom: Never pay a bill unless you have the goods to back it up.

"At one time we had more than 100 of these specialty items schemes under investigation at the same time and all in Nevada, Arizona or California," says Fletcher.

There is a good reason such scams are based in the Far West. Fletcher explains: "These operators can start

their phone calling in California at 6 a.m. and because of the time differential catch businesses opening at 9 a.m. on the East Coast. They work the clock back west so that by the time they make calls in California, they have gotten in a 10- to 12-hour day and covered the entire nation."

Of course, checks mailed to fraudulent operators almost always go to an address different from the storefront from where the solicitations are being made. Such subterfuge complicates investigations by the 400 U.S. postal inspectors assigned to mail fraud.

**A**DDITIONAL OBSTACLES to stamping out such swindles include the increasing number of persons taking part in mail fraud. Many operators hire 20 to 40 telephone solicitors; postal officials may eventually arrest and imprison the operator, but some of the solicitors, now trained in a scam, become operators themselves and hire another batch of phone callers.

Congress has toughened laws against mail fraud. One effective piece of legislation permits postal authorities to obtain a temporary injunction to withhold mail addressed to a suspicious operation until an administrative hearing is held to consider evidence against the operation.

For the business person, however, guarding against fraud requires a vigilance that Fletcher and his staff try to imbue through pamphlets, public service announcements, forums and speeches at civic clubs.

"Every year, around the country, we schedule postal forums for small business people," Fletcher says. "We will get 3,000 to 5,000 people there to learn about businesses' relations with the Postal Service, and we always have a presentation on mail fraud on the program."

Then he adds:

"Of course, not everyone gets the message." □

## Protecting Yourself From Swindlers

Postal inspectors in fiscal 1982 investigated 2,867 complaints of mail fraud, obtained 966 convictions against swindlers and recovered \$16 million for mail fraud victims.

"Most mailers are honest and stand behind their products," says Chief Postal Inspector Kenneth H. Fletcher. "Our job is to put the dishonest ones out of business, but we need the business community's help to do our job."

Fletcher urges businesses to follow this advice:

- Beware of exaggerated claims

for services, products or prices. If it sounds too good to be true, it usually is.

- Establish effective internal controls to avoid payment of false invoices for advertising in questionable or nonexistent business directories.

- Know with whom you are doing business. If suspicious, verify credit references and contact the local Better Business Bureau or chamber of commerce.

- Be wary of accepting gifts given to gain favor. Gifts are often

used to induce a softening of ethical standards.

- Support efforts to prosecute mail fraud. Appear as a witness when needed and furnish accurate records of business transactions.

- If you believe you are a victim of an illegal scheme involving use of the mails, be sure to keep all questionable material, including mailing envelopes, since they are important to an investigation.

- Report possible frauds to the Postal Inspection Service, care of your local postmaster.



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# Take Charge Of Your Computers

Most data processing problems are management problems. Get in control with these seven steps.

By Joseph E. Izzo

**I**F YOUR COMPANY is gnashing its collective teeth about problems with computers, it is not alone. Complaints about computers in business—what they produce and what they are doing to organization behavior—are as ubiquitous as the machines themselves.

A recent survey of major companies disclosed that two thirds of those responding were dissatisfied with their computer services. And business spends mind-boggling sums to straighten out computer-related difficulties.

Here we have a profound contradiction. Business people are well aware of the importance of computers to operations. Most executives can easily observe the impact of the computer on day-to-day activities. And increasingly, professional managers are not just observing the information revolution—they are enlisting in it by using personal computers.

Yet, for the most part, management and the computer people have not learned to live happily with one another. Why?

The answer, in my view, is simple: In many companies top management has not been sufficiently involved in data processing operations. Similarly, many data processing managers have not been adequately business-minded. They have been so enthralled with technology that they have failed to recognize that their function is to serve the company's business objectives.

As a result, there is frequently a serious communication barrier between senior executives and data processing people.

That barrier causes problems far more serious than the ordinary bugs that usually disrupt a computer system. The latter can easily be handled by a good programmer. But the bugs propagated by communication difficulties can be truly fearsome beasts, and it is a major task to banish them.

Here are seven prescriptions for extracting these formidable creatures from your computer operation.

**1.** Don't be intimidated by computers. There is no question that senior management has failed to come to grips with the computer because it has held the computer in awe.

Part of this is a language problem. Executives can talk knowledgeably about discounted cash flow, decision trees, cost per thousand and management by objectives, but they have found computer jargon largely impenetrable. As a result, computers are surrounded by mystery. So they have made executives uncomfortable—and even fearful.



Management should not be intimidated by the computer, though it often is.

But a manager does not have to be conversant with computer technology to make intelligent decisions about computers. Senior executives can learn quickly all they need to know to manage a computer operation. For example, translation of technical terms can be supplied by the data processing staff, managers with computer knowledge or consultants. The essential requirement is a determination to get control of the data processing organization.

**2.** Develop a strategy for data processing. Few executives need to be convinced of the virtues of planning. Yet even though a company may be highly sophisticated in other aspects of planning, it is likely to treat planning for data processing cursorily, if at all. That is a dangerous oversight for so vital and pervasive a function.

Strategic planning recommendations can be developed one of two ways. You can hire an outside consulting firm to work with your top-level executives, including a data processing representative. Or you can name a team from within the company to do the job. If you choose the latter approach, the head of the team should be someone with planning experience, whether or not he or she is from data processing, and the heads of each department should have input in the plan that is devised.

With either approach, the executives involved should be people who know your company well. It will be their task to bring data processing into accord with the objectives of your company.

Planning should be based on the fundamental question of what your business is now, what it will be in the future and what it should be.

In the context of these issues, the plan must address:

- Computer applications. Look at what systems exist in your company today. Are they adequate? Are your key business functions well supported by data processing? If not, why? What do you need to increase productivity, improve efficiency and gain a competitive edge?

- Organization and staffing. To whom should data processing report? What skills and capabilities should your data processing people have? Should they be housed in one department or assigned to specific operations throughout the company, such as marketing, finance or research and development?

- Monitoring and control. Finally, how can data processing be measured and controlled so it will be effective? Look at your present method. If it is not effective, it must be changed or your problems will persist.

Creating your strategic plan for data processing will be an arduous task. But it will be worth the effort.

**3.** Make sure your top data processing executive is a manager first and a technician second. He or she has one of the toughest jobs in the company. In addition to needing management skill and technical knowledge, your DP manager must be able to communicate well with top executives and other "customers" within the organization.





The top data processing executive should be a manager first, a technician second.

Unfortunately, these attributes are not typical of data processing managers. Data processing is a young field—really only about 25 years old as a full-fledged business discipline—and its technical demands have always been so great that it has not yet developed a genuine managerial tradition.

As computers have become widespread, technicians rather than managers have been appointed data processing heads. And their careers have advanced through enhancement of technical, not managerial, skills. As a result, the business aspect of data processing management often gets short shrift. Do not let this happen in your company. Make sure your DP manager can talk the language of business as well as the language of computers.

And if your manager cannot or will not communicate clearly and work hard to make sure that DP acts as a service organization to your company, recognize that no one is indispensable. There have been too many instances where executives have been so fearful of losing their technical experts that they have put up with managerial incompetence. Now that the profession is maturing, you can find someone who is both a good manager and technically adept.

**4.** Demand documentation. Making a written record of what a computer program does and how to use it is a time-consuming and onerous task, so most computer professionals will avoid it like the plague. Do not let them. Missing documentation is an important reason why DP departments find themselves in difficulty. Lack of

good written records puts a company at the mercy of a few individuals. If a key programmer leaves or becomes ill and his or her work has not been well documented, it could take weeks or even months to make up the loss.

Good documentation also makes it easier to modify existing programs to meet new needs.

**5.** Establish controls. Set up a system to ensure that you get maximum benefit from your systems. Requests for new systems or modification of old ones, requisitions for personal computers—all must be evaluated to determine whether they will give a good return to your company. Will the requested item or activity improve productivity? Help you penetrate the marketplace? Yield added value?

When you set up controls, keep in mind that they should be effective, but not stifling—do not overcontrol. For instance, you should expect detailed documentation for a major application system, but do not require the same level of detail from managers who develop their own programs on personal computers (although some documentation is still needed even for personal computers).

**6.** Insist on executive involvement. The only way executives can get what they want from computers is to work closely with DP. The best way to involve executives in managing and controlling data processing is to set up a high-level committee for that purpose.

The tasks of the DP executive committee include setting overall data processing policy and formulating strategy, hiring top DP executives, approving the DP organizational structure, reviewing budgets and deciding on major expenditures. Committee membership should reflect the company's principal

interests and functions. It should include the chief executive officer and a high executive from each line and staff function, including the top-ranking data processing person.

To be effective, the committee should hold monthly or bi-monthly meetings with formal agendas. Attendance must be mandatory. If a member cannot attend, an alternate should be given full voting authority.

A senior DP committee will represent a major commitment for your company; a lot of expensive people must prepare for and attend its meetings. But just as war is too important to be left to the generals, data processing is too important to be left solely to your DP department.

**7.** Exploit the changing technology—but beware. The inexorable growth of demand for speedily delivered information and the continuous development of computer technology have combined to distribute computer use ever more widely throughout corporations. The rise of word processing, networking, electronic mail, work stations and personal computers can be a tremendous boon to your company, but it can also cause severe headaches if appropriate policies are not established.

For example, a company that is a client of my firm thought it would be useful to link its personal computers in an interactive network. It discovered that it had so many incompatible brands of computers that forming a network was impossible without starting from scratch with compatible machines.

Or consider the companies whose executives, enamored of their PCs, write programs for important tasks that no one else can use because they have not been adequately documented.

Such glitches in computer systems are common. This does not mean you should not disperse computer power widely in your company. It means you should control it.

Computer technology need not be a mystery. It can be understood and managed. And business has a pressing responsibility to engage in that task. □

JOSEPH E. IZZO is president of the JIA Management Group, a Santa Monica, Calif., consulting firm that helps companies solve data processing problems.



The best way to get executives involved with data processing is to set up a high-level committee.



To order reprints of this article, see page 81.



# "Most Successful Bank" in Danger

The IMF needs us—and its supporters say we need the IMF.

By Seth Kantor

**T**HE PLAZAS and wide avenues of Brazil are filling with street vendors these days, as businesses collapse throughout the country and the unemployed struggle to sell all sorts of items in sidewalk marketplaces.

Brazil is in its third year of an economic nose dive, propelled by a string of failures in the prices of its major export commodities, principally coffee, sugar and cocoa. It is strapped by \$90 billion in debts owed foreign banks and governments.

Many Third World nations—their debts have reached a staggering \$700 billion—are hurting financially, but Brazil is in the worst shape by far. Its interest and principal payments due this year come to \$16 billion. As a result, the International Monetary Fund in July agreed to resume issuing a \$5.9 billion package of emergency loans to Brazil that had been suspended because the country is such a poor investment risk now.

Putting it bluntly, Treasury Secretary Donald Regan says that "there would be no Brazil in the eyes of creditors if there were no IMF."

The IMF was founded in 1944 at Bretton Woods, N.H., in a 44-nation conference that planned for post-World War II international economic cooperation. It now has 146 member nations.

One of its main functions is to provide temporary balance-of-payments financing to help deal with external financial difficulties. There is heavy emphasis on "temporary" and "external." The loans are not meant to help countries juggle domestic debts.

Every IMF loan so far has been repaid, making the organization, in the words of Rep. Jim Leach (R-Iowa), "the most successful bank that has ever existed in history."

The United States and other countries that have provided the IMF with money have been repaid with interest. Sometimes, they have been borrowers. This country has gotten \$6.5 billion in IMF loans over the past 19 years.

Nonetheless, the Washington-based organization is the subject of controversy these days, both in the United States and abroad.

In Brazil there is widespread criticism of the IMF because it has insisted on stringent domestic economic policies that amount to a strict belt-tightening for everybody. That includes insistence that Brazil reduce its 125 percent inflation rate and a skyrocketing government deficit.

On Capitol Hill, where Congress is being asked by the Reagan administration to authorize an \$8.5 billion increase in the \$19.6 billion U.S. commitment to the IMF, there have been charges that the increase is little more than a bailout for U.S. banks involved in loans that opponents say have been shaky. Some members of Congress urge an end to U.S. support of the IMF.

After Managing Director Jacques de Larosiere warned that the IMF was rapidly draining its resources with Third World loans and might be unable to make more loans after 1983, the Senate voted 55 to 34 in June to support the increase, which would be part of a \$40 billion-plus worldwide membership commitment to shore up the fund's reserves.

But in the House the increase ran into unexpectedly tough opposition from an unlikely combination of conservative Republicans and liberal Democrats, causing growing concern among

IMF supporters. Those supporters included the U.S. Chamber of Commerce, the AFL-CIO, the Democratic leadership of the House and President Reagan. Chief among their arguments was that the Third World needs IMF support in order to continue as a major importer of U.S. goods—which means the survival of many American jobs.

**A**MONG ARGUMENTS against further U.S. participation in the IMF was that it has made some questionable loans. Communist Vietnam, for instance, has received \$100 million in IMF loans since 1977, notes Rep. Frank Annunzio (D-Ill.), and has repaid less than 10 percent so far. This year the IMF granted an \$18 million loan to the Central African Republic, which had gotten into financial hot water when it spent \$50 million—roughly half its annual budget—to celebrate the coronation of its now deposed Emperor Bokassa.

Speaker Thomas P. O'Neill (D-Mass.) delayed letting the IMF support measure reach the House floor, fearing there were not enough votes to pass it. Finally, just before Congress went into recess last month, the IMF authorization squeaked through the House 217 to 211, but only after a string of tough amendments were tacked onto the bill.

One would prohibit the U.S. representative on the IMF directorate from voting for any loan to a Communist nation. Another would restrict IMF staff salaries,

which in some cases vastly exceed the pay of members of Congress, and do away with regulations that grant all IMF employees 5 percent, IMF-underwritten home mortgages.

Since the Senate imposed no such restrictions, House and Senate conferees now will try to reach agreement on a compromise that the House must accept if the IMF is to stay in business.

Without an extra contribution to the organization from the United States, Treasury Secretary Regan warns, there will be none from any other nation. □



Fewer shoppers come to Brazilian markets these days, as the economy reels under the weight of debt and inflation. The IMF is providing emergency aid.



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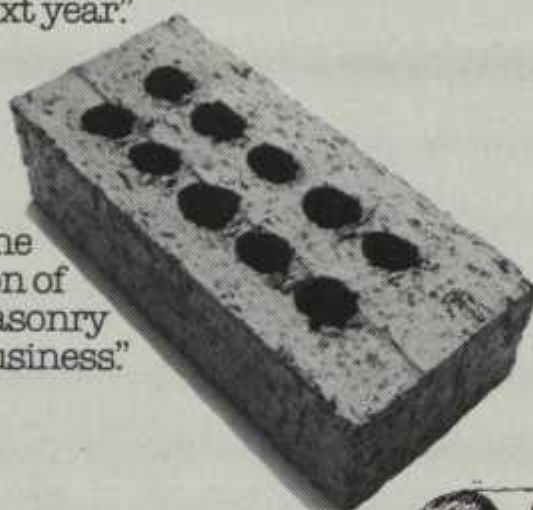


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# Nation's Business

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Major tax increase legislation remains a possibility on Capitol Hill, despite economic gains that are reducing deficits. A big question is whose taxes will be raised how much under any such bill.

## Will Congress Bite The Spending Bullet?

Realistic control of government spending is impossible without curtailing entitlement programs. Is Congress finally moving, albeit reluctantly, to accept this fiscal fact of life?

## Paying Heavily For Payment in Kind

PIK—Payment in Kind—a program to shift the burden of aiding farmers from the federal treasury to consumers, is costing taxpayers more than expected. And consumers will be paying more than expected for food, too.

## Chief Justice Urges Prison Reform

Chief Justice Warren Burger offers a plan to make correctional institutions more effective in rehabilitating inmates, while easing the cost burden on taxpayers.

## How You Can Avoid Bankruptcy Ripoffs

Legitimate businesses like your own are the targets of professional criminals specializing in bankruptcy fraud. An expert explains how to avoid these ripoffs.

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## Survival Kit for Business



# Where I Stand

## 1. End Controls On Natural Gas?

In 1978 Congress passed a law that was intended to loosen the regulators' grip on natural gas sold interstate, restoring free market benefits lost when federal controls began in 1954.

Actually, the law added controls rather than removing them. True, controls were lifted from the 10 percent of gas for which drilling is most expensive, and in 1985 another 40 percent or so is to be decontrolled.

But under the law, the rest—so-called old gas, from wells drilled before 1977—is never to be decontrolled. Meanwhile, the law has created a maze of gas categories, each with its own price, causing prices to rise despite a present supply surplus.

Many business experts urge complete decontrol. They say that the present system has brought some area shortages and price inequities and has caused drilling for future supplies to fall short of needs.

Opponents say that decontrol would send prices out of sight. But its advocates say more old gas—typically cheaper than the new—would be produced, benefiting the consumer.

Should all controls on natural gas be ended?

## 2. Curb PAC Giving To Campaigns?

Political action committees have won increasing recognition as factors in congressional campaigns.

For one thing, they spread the word about issues involved in candidacies. The National Chamber Alliance for Politics, for example, communicates with the membership of the U.S. Chamber of Commerce. And PACs—whether arms of business or of labor unions, whether conservative or liberal—are a major source of the funds that candidates use in communicating with the voters.

Some members of Congress, professing to see danger in the level of PAC contributions, support the so-called Clean Campaign Act of 1983. This bill would, among other things, limit to \$90,000 the amount of PAC money a candidate could accept. (It would not change the present \$5,000 limit on how much a PAC can give one candidate.)

Proponents say PACs buy votes and have too much influence. Opponents say no, funds go to those whose philosophy is already like the givers', and the number and diversity of PACs negates any undue influence.

Should a lid be placed on PAC contributions to congressional campaigns?

## 3. Force Employers To Ban Smoking?

Antismoking militants are pressing for action in the workplace to further their cause. One result: a San Francisco ordinance requiring private employers to prohibit smoking in a work area if any employee objects to arrangements—also required—to accommodate both smokers and nonsmokers.

In addition to seeking laws to ban workplace smoking, antismokers are going to court. Though one tribunal has held that an employer is not obligated to provide a smoking-free environment for those who say they need it, other courts have ruled otherwise.

The issue is one of rights. Antismokers say they have a right to work in a smoking-free environment. Some cite evidence—disputed by the tobacco industry—that sharing a workplace with smokers could affect their health. Others simply say they find smoking repugnant.

Smokers—many of them are militant, too—argue that they have a right to smoke at work if they please. And then there is the matter of whether the employer has the right to freely decide what course to take.

Should employers be required to prohibit smoking in the workplace?

**You can now respond easily to this monthly poll on major business issues by using the attached postage-paid card.**

## Verdicts on Food Stamps, Antitrust, Overtime Issues

In July the monthly Where I Stand poll asked these questions: Should eligible food stamp recipients have to take public service jobs? Should antitrust law be changed to encourage joint research and development? Should federal contractors' special workday restriction be ended? There were nearly 1,000 answers. Appropriate government decision makers will be informed of the poll's results.

On the first question, a whopping 98.8 percent of those responding approved the idea of making public service a requirement if someone able to work but unable to find a private job is to get food stamps. Only 0.8 percent voted no. The rest were undecided.

Sixty-eight percent voted for a softening of antitrust law to make it easier for businesses to join forces on research and development without fear of prosecution or of private lawsuits for treble damages. Voting no were 15.6 percent, and 16.4 percent were undecided.

On the third question, 92 percent favored changing an overtime pay requirement that effectively bars flexible work schedules at businesses that have contracts for federally financed construction or to sell to the federal government. (They must pay time-and-a-half after eight hours in a day as well as after the standard 40 hours in a week.) Four percent voted no; 4 percent were undecided.



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# STRATEGIES FOR SUCCESS

## Stamp This Business With "Well Done"

Success in a small business, the textbooks say, requires more than a rubber stamp formula. But that is all that Chris and Sue Stangland of Eugene, Ore., needed.

Six years ago the Stanglands put together \$1,500 to buy a rubber stamp mold and an idea from a friend in San Francisco. Today their rubber stamp company, Stamos, inks nearly \$4 million annually in sales.

That is a rather sophisticated figure considering the simplicity of the product. Stamos makes small rubber stamps of owls, butterflies, frogs and the like. Also big are licensed cartoon characters like the Flintstones and Scooby-Doo. Stamps with phrases of praise—"Terrific Job" and "Well Done"—are popular with elementary school teachers (and their students).

In all, the Stanglands produce stamps with about 300 designs. Individual stamps sell for 99 cents. Then there are Party Packs—packages of eight stamps promoted as birthday party favors—and alphabet and number sets for preschoolers.

The stamps are self-inking—each fits into a cap containing an inked felt pad good for about 2,000 impressions.

"Rubber stamps are just an extension of the bumper sticker craze, the T-shirt craze, the poster craze," says Chris, 40. "It's a form of self-expression. For some, the stamps are substitutes for creative talents that people want but don't necessarily have; in other words, they can create decorations with rubber stamps."

The rubber stamps were also a vehicle for satisfying Chris' obsession with owning his own business. From the day he got out of the University of Oregon in 1965, he recalls being "like a horse in a starting gate."

Selling cosmetics door-to-door was his first entrepreneurial effort. The business cleaned out his savings account in 18 months. Broke, he worked as a longshoreman in the Northwest and saved enough money to start a rock and roll record company. It also failed.

Looking back, he remembers making "the mistake of trying to start my own business right away, without any experience. I should have gone with a com-

pany and learned merchandising and then started out."

It was 1970, and Stangland, wiser but no richer, signed on as a pharmaceutical firm salesman and got merchandising experience in the Los Angeles area. Two years later he began selling for his brother's California poster company "and making decent money ... but I was watching my brother get rich while I was still working for wages."

Sue, a former schoolteacher, became Mrs. Stangland and helped change all that.

In 1977, while dining with an artist friend, they learned the artist had been trying for several years to sell landscape architects rubber stamps by mail. He hadn't succeeded, and he offered the idea and the mold to the Stanglands for \$1,500.

They took the mold home, sat down at the kitchen table and scratched out new novelty designs for stamps. "We would sit up all night in the kitchen, cutting out the rubber and putting together the stamps," recalls Sue, 35. On Mondays, they loaded stamps in the car trunk as Chris prepared to go out selling them to shops. Sue would instruct him: "Don't come home until the trunk is empty."

That first year, working the San Francisco area, they sold 25,000 stamps. Then they began selling in a wider territory. While Chris was calling on shops in Eugene, a banker offered

him expansion loans if the couple would move to that city. The Stanglands seized the opportunity and during their second year in business sold 100,000 stamps.

By September, 1982, Stamos, now incorporated and owned exclusively by Chris and Sue Stangland, had sold 6 million rubber stamps. Manufacturing is now done in a 16,000-square-foot warehouse. Of the company's 90 employees, 35 are elderly, some of them handicapped.

Sue now works only about 20 hours a week, because of the Stanglands' two young sons, but she continues to make the business decisions. Says Chris, who still puts in 60-hour weeks: "Sue really ran the business from the beginning. I was just the dog and pony show."

The Stanglands say most of Stamos' users range in age from 6 to 15, but 70 percent of the buyers are adult women, who buy the stamps as gifts.

"Our biggest supporters are schoolteachers," says Sue. "They use Stamos in the classroom to grade papers and as motivators. 'You do well today, Johnny, and you will get a unicorn on your paper.' Children vie for that sort of thing."

For adults vying to have their own successful business some day (perhaps earning a "Well Done" stamp), the Stanglands have some advice.

"It is relatively easy to start your own business," says Chris, "but the challenge is to grow, and the key to growing is in the people you hire. We didn't hire any losers; we handpicked a lot of winners. They've made the difference."

The Stanglands learned to ask questions. "We knew nothing about rubber stamp manufacturing and went around asking what may have seemed like some pretty dumb questions," says Sue. "But we got answers and suggestions and ideas."

As for the unexpected, the Stanglands say, it is always occurring in a small business.

In their case, however, on at least two occasions the surprises could not have been more pleasant—the Stanglands were named Oregon's 1983 Small Business Persons of the Year, and in May President Reagan received them in the White House Rose Garden as runners-up for the national title of Small Business Persons of the Year.



Sue and Chris Stangland's annual sales of whimsical rubber stamps total \$4 million.





PHOTO: DAVID M. JONES

Missourian Edmund J. Boyce courts small groups for the Lodge at Innsbrook Estates, a conference center that features swimming, sailing, tennis and golf.

## Royal Treatment for Small Firms

Back in 1943, in the thick of World War II rationing, a 7-year-old named Edmund J. Boyce, Jr., discovered a source of bubble gum and, he says, sold the gum "on the black market" to his friends.

"Since then," Boyce chuckles, "all of my activities have been legitimate."

The eclectic Clayton, Mo., entrepreneur is chairman of a bank in nearby St. Louis. He helps run his father's insurance agency (although Boyce, Sr., 83, still goes to the office every day), and he buys and sells private railroad cars.

"That is for fun, but you can make a buck on it," Boyce observes. He recently paid \$150,000 for his fourth car and expects to sell it for around \$250,000 once his partner has restored it.

On the more serious side is 3,000-acre Innsbrook Estates near Wright City,

about an hour's drive west of St. Louis. Boyce started Innsbrook in 1971 as a leisure community, where people could buy A-frame chalets as second homes and enjoy such amenities as tennis, golf, swimming and sailing.

Every year, Boyce took his staff to other resorts throughout the country to see how they were run. Boyce and his people concluded that large resorts cater to conventions of 300 to 400 and that smaller groups, as Boyce says, "get lost and don't get very good service."

Result: Boyce redirected his original plan, adding the Lodge at Innsbrook Estates, a conference center designed to give top service to smaller businesses and groups of 50 to 100.

The 15,500-square-foot lodge contains eight meeting rooms. Overnight accom-

modations are available in condominiums owned by private investors and managed by the Innsbrook staff.

Lodge revenues were \$600,000 in 1982, the first full year of operation, and Boyce expects the figure to double this year. Annual income for the entire development—homes, lodge and catering—is around \$6 million.

The resort's property owners offer a built-in market for the lodge, Boyce observes, because many own businesses or have some influence on where their employers hold meetings.

Although the meetings may be small, the clients are not necessarily so—the list includes Anheuser-Busch, Hewlett-Packard, Apple, Gould, Inc., and dozens of others.

There are two types of people in business, Boyce muses. "Buyers and sellers. Bringing them together is where I have always made a living."

In the 1950s, not long after he graduated with an economics degree from Regis College in Denver, Boyce was in a St. Louis bar and saw a man wearing a sweatshirt imprinted "Olympic Drinking Team." Such sweatshirts and T-shirts were rare then, and Boyce was intrigued.

He found that the sporting goods store selling the shirts was not really interested in them—they were a sideline. At the suggestion of the store's management, Boyce contracted with a mill for sweatshirts and with the silk-screener who had done printing for the store, and he began to sell the shirts himself, supplying the store when it needed replacements. Advertising in *Playboy*, he sold 50,000 shirts and made \$250,000 in 1957.

Did hitting it big so early give him the confidence he needed for the entrepreneurial life? Not so, he replies: "It was the bubble gum that originally gave me the spirit."

## His Firm Sells Designs That Sell

Although he speaks the language of marketing, Charles Biondo is first and foremost a designer. With the deftness of a craftsman, he has combined art and salesmanship in Charles Biondo Design Associates, a New York firm that specializes in package design and offers marketing expertise to a roster of prestigious clients.

A graduate of New York City's High School of Art and Pratt Institute, and girded with some business courses from New York University, Biondo once thought he might work in advertising. Instead, he landed a job in packaging, a field he had barely heard of.

"Loved the business," he says. "Stayed with it."

Later, married and with a baby on the way (the first of four), he decided that if he was going to have his own business, it was now or never. He was

only 23 when he founded CBDA in 1960.

His big break came the next year when Corning Glass Works contracted with him. Corning has been with him ever since. A second big break: General Foods Corporation became an account. As CBDA's contact people moved from those firms to others, they called on CBDA in their new positions.

CBDA has grown to 32 employees, and Biondo has added a second office in San Francisco to deal with a growing West Coast clientele. One of Biondo's



West Coast projects is packaging on a large scale: A year and a half ago CBDA completed a design for revamping the San Diego Sports Arena. The design is still being implemented.

Another large-scale undertaking was the Century Cafe, a renovation of the historic Stage Door Canteen in New York's Times Square. More traditional jobs have included package designs for product lines of such companies as Durkee Foods, Charles of the Ritz, Kimberly-Clark and Lever Brothers.

"With a restaurant, you are dealing with a large space, traffic flow, a total environment," says Biondo. "You are generating a feeling." The challenge with a product package is creating something that will "jump out and tell your story" in the few seconds it takes a supermarket customer to walk by a counter or shelf.

Biondo feels it is up to his firm to convince a client that a design will be an effective sales tool. To do this, CBDA uses market research techniques in coming up with some of its designs. For example, eye-testing equipment may be used to track the path of a person's eyes, as they move over a package, to measure how long they focus on an area.

As it moves into the consumer market, the computer industry has an increasing need for package design, Biondo says. CBDA has designed software packaging for MicroPro International Corporation and has recently taken on a project for VisiCorp, another California software house.

Software packaging is becoming more like packaging other consumer products, CBDA has found.

For example, one challenge might be to make VisiCorp's accounting products distinguishable on a shelf from the accounting products of other software firms—not so different, Biondo says, from trying to make one firm's frozen chicken stand out from all the other frozen chicken.

**Telling a product's story in a few seconds is Charles Biondo's challenge.**



Richard Clements (at his Big Sur home in California) is building hotels in Nepal.

## High Hopes For The Himalayas

Four years ago a friend convinced Richard Clements, Jr., that he should travel to Nepal for a 20-day trek through the Himalayas.

"It was the most exhilarating, compelling experience of my life," Clements declares.

The California architect and developer was so overwhelmed by "the majesty and the magnitude of the mountains superimposed on these colorful, exciting people" that he found a Nepalese partner and embarked on an unusual \$6.5 million project: creation of half a dozen small hotels along a popular trekking route north of Katmandu. When completed, his "sophisticated" mountain lodges will, he believes, attract well-heeled travelers to "the most exciting touristic experience on Earth."

It will take trekkers six days to reach the topmost lodge, to be built at an altitude of 12,700 feet, so the 40-room hotels will be spaced a day's walk apart. It will be a 120-mile round trip but, Clements interjects, "a gentle walk."

Namaste International—after the Nepalese word of greeting—is the name of the company Clements formed to handle the project. Construction began last September and may take three years or more to finish. "Nothing in Nepal happens on time," he observes.

A self-taught architect who earned degrees in philosophy and journalism, Clements has built homes and other structures along the California

coast. His Timber Cove subdivision in Sonoma County was undertaken as an experiment, to demonstrate that a subdivision could blend harmoniously with the natural environment.

Clements says the Namaste lodges will be "rustic, built of native materials, and feel and look as though they grew from the site. Some rooms will offer hot tubs with a view of the Himalayas. His market: "Upwards of 20 million people who patronize the better resort hotels of the world at \$85 to \$150 a day and higher."

His lodges, Clements says, will employ 550 people and generate new foreign exchange for Nepal from an increased number of tourists. In his view, Nepal's touristic resources are going to be developed with or without him. "With this project," he says, "we are going to show that the way to develop Nepal is by meeting the highest possible standards."

Clements went to Washington recently to meet with representatives of the Overseas Private Investment Corporation. The banks he is dealing with want OPIC or World Bank involvement, he explains.

As a self-made multimillionaire, he was miffed that OPIC, which encourages U.S. private investment in developing countries, had earlier asked him to take on a large American partner. "I have refused," he says. "America was built by individuals, not corporations. If I have achieved financial independence on my own, I am not going to hand it over to a large corporation."

He is fierce in his belief that the United States should be investing in the small entrepreneurs, not the governments, of Third World nations.

"OPIC," he says, "is the greatest idea America ever had, but it should reorient its thinking to the little guy." □



PHOTO: DAVID GILMAN



# Why Free Trade?

**T**he Benefits Are Many, the Opportunities Abound, and Now is the Time for American Business to Meet the World Trade Challenge.

Should we strive to keep international trade free? What are the opportunities (and obstacles) in overseas trade today? How does one get started in exporting?

These questions are examined in depth in a new three-part series on international trade from the Chamber of Commerce of the United States, entitled, "Meeting the World Trade Challenge."

More than 220 color slides, audio cassette narratives, and booklets listing further sources of information and as-



sistance comprise the series, which illustrates the risks and rewards, opportunities and obstacles in international trade. An additional feature: businesses planning their first ventures in overseas trade are instructed in detail

on how to get started in exporting.

**"M**eeting the World Trade Challenge" may be obtained for \$95 complete, by calling or writing the Special Projects Division, U.S. Chamber of Commerce, 1615 H Street, N.W., Washington, D.C. 20062; (202) 463-5755. Orders may be prepaid, or invoiced with shipment.





## Are You Overweight or Overfat?

By Gabe Mirkin, M.D., and Mona M. Shangold, M.D.

**A**RE YOU GETTING too fat? Relying on your bathroom scale to answer that question can be very misleading. Your body composition is more important than your weight.

A lean and muscular person can weigh more than a chubby one of the same height. That is because bone and muscle are denser (heavier per unit of volume) than fat.

As we age, our bones get thinner and lighter, and our muscles shrink. And unless we remain very active, we all tend to get fatter. Of the lucky few who weigh the same at age 40 as at 20, most have lost some muscle and added some fat. (If you doubt that, try on an old suit!)

In the battle of the bulge, diets alone simply do not work. Some people switch from one fad diet to another every time they gain a few pounds. And then, every time, they are disappointed with the results. If you lose weight quickly by reducing your food intake, the weight you lose will be mostly muscle, not fat.

Further, scientists have found that a low-calorie diet causes the body to reduce its metabolic rate, making it harder for the dieter to lose weight. Underactivity, rather than overeating, is the most common cause of obesity. In fact, the average skinny person who is active consumes about 600 calories per day more than the average obese person who is inactive.

In order to lose fat, you must lose weight slowly, using a combination of diet and exercise. Regular exercise promotes the formation of muscle and loss of fat. When you first begin an exercise program, you may actually gain a few pounds and lose a few inches at the same time.

GABE MIRKIN, M.D., is the author of *Getting Thin* (Little, Brown & Company). MONA SHANGOLD, M.D., is assistant professor of obstetrics and gynecology at Cornell University Medical College.

Sustained exercise—such as brisk walking, stationary bicycling, swimming, aerobic dancing or cross-country skiing—burns a lot of calories during the activity itself. You will also burn more calories for several hours after you have exercised compared with what you would have burned if you had not exercised. This leads to a greater rate of metabolism overall, even while you are resting. In any activity or at rest, a muscular person burns more calories than a fat one of the same weight. So both exercise and muscularity will help increase your metabolic rate.

**W**OMEN HAVE a natural disadvantage: Their bodies contain higher levels of the hormone estrogen, which promotes formation of fat. Men have higher levels of testosterone, which encourages formation of muscles and gives men an edge in remaining lean. As a result, the average inactive woman tends to get plump at an earlier age than the average inactive man. Until recently most women's lives were more sedentary than they are today, making

them more vulnerable to being overfat.

Fat distribution is determined largely by heredity and gender. Most men put extra weight on their waists and bellies. Although some women seem to add fat evenly all over, most have definite problem areas where the lumps settle. Many women with fat thighs have mothers and daughters with fat thighs, and many women with large breasts have mothers and daughters with the same characteristic.

You can determine how much fat you have. The most accurate method involves measurements made while you are submerged in water. But since that method requires special equipment and a technician to help you, it is a bit impractical (and uncomfortable).

If you buy special skin calipers, you can measure your fat at several specific sites (the biceps, the triceps, the waist and the mid-back). The total measure at these sites correlates with the total amount of fat in your body, which can be determined by checking a chart that comes with the calipers. Skin calipers cost from just a few dollars to over \$100 for highly sophisticated versions.

For information on calipers in the \$10 to \$20 range, write to: Creative Health Products, 5148 Saddle Ridge Road, Plymouth, Mich. 48170; Health and Education Services, 80 Fairbanks, Unit 12, Addison, Ill. 60101; or Fat Control, P.O. Box 10117, Towson, Md., 21204.

The average fit man has 12 to 15 percent body fat and the average fit woman 22 to 25 percent. Instead of standing on a bathroom scale, monitor your progress by trying on your old clothes, measuring your fat with skin calipers or simply watching yourself in a mirror.

If you don't like what you see, look for ways to add a brisk walk to your day (perhaps after lunch) or get in some extra laps at the pool. It's important to keep your body on the move.

**A muscular person can weigh more than a chubby one of the same height because muscle is heavier than fat. When exercising regularly, you may gain a few pounds but lose a few inches.**

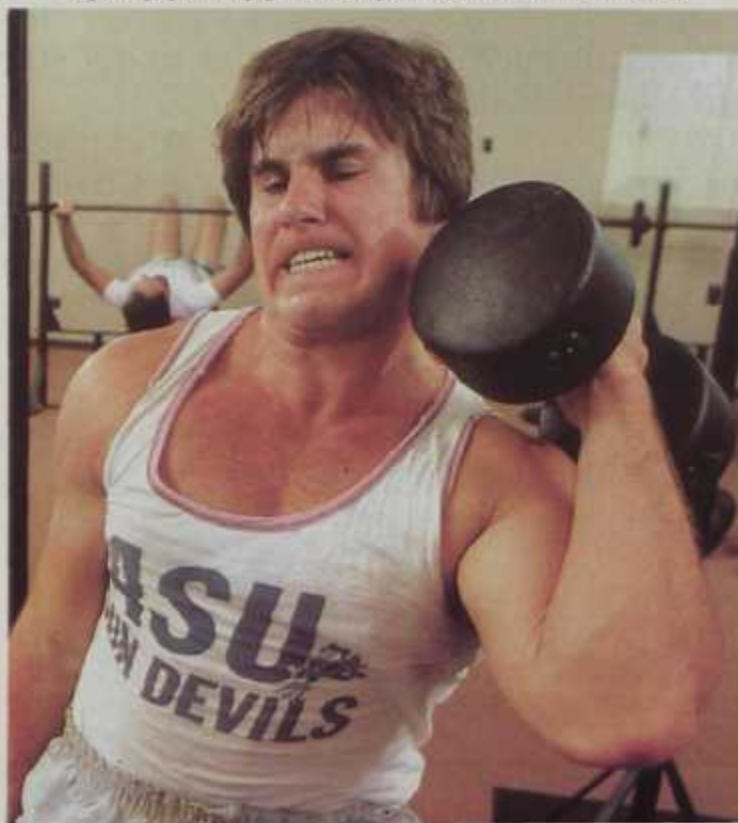


PHOTO: ARNOLD ZAHN-BLACK STAR





## CONGRESSIONAL ALERT

# Issues That Could Affect Your Business

... and what you can do about them

This NATION'S BUSINESS feature advises readers how they can make their views known on important pending legislation. Correspondence to members and committees of Congress can be sent c/o either U.S. Senate, Washington, D.C. 20510 or U.S. House of Representatives, Washington, D.C. 20515.

Issue	Potential Impact On Business	Contact And Business Message
FY 1984 Budget/Taxes	Congressional actions on the budget will determine the rate and strength of the economic recovery, set pace of federal borrowing to pay for excessive government spending.	Members of the House and Senate: Oppose enacting any major tax increase package this year; oppose any efforts to tax fringe benefits; maintain indexing provisions.
Appropriation Bills	The combined total of the 13 individual appropriation bills represents the actual spending level of the federal government for fiscal 1984, affects deficit and interest rates.	Members of the House and Senate: Don't jeopardize economic recovery by passing bloated appropriation bills requiring additional federal borrowing; support presidential vetoes.
Natural Gas Deregulation	Total deregulation would bring lowest price with plentiful supply, provide equitable price structure.	Senators, House Energy and Commerce Committee: Deregulate all natural gas supplies and prices by a fixed date.
Export Administration Act	Implementation would add considerable strength to economic recovery, reduce foreign trade deficit and unemployment, enhance U.S. trading reputation.	Members of the House and Senate: Promote reasonable export trade by reducing controls on items readily available from competitive sources.
Immigration	Major increase in paper work burden for small business could be result if mandatory reporting requirements prevail.	Members of the House: Retention of the voluntary paper work provision is crucial to bill's success.
Health Insurance for Unemployed	Cost of labor would increase, forcing many firms to reduce insurance benefits to current employees; higher costs reduce U.S. competitive edge.	Senators: Increasing the cost of labor will not put people back to work; don't curtail recovery by adding to already high taxes.
Hazardous Wastes	Enactment could result in greatly increased paper work burden and more expensive production costs; benefits to the environment would be few; confusion could continue.	Members of the House and Senate: Support efforts requiring waste management classification study; support business awareness programs explaining environmental laws.



## Why the Labor Unions Should Be Reasonable

Hopes for recovery without resurging inflation continue to grow more realistic.

The economic turnaround is accelerating at a rate far beyond that anticipated earlier this year. Inflation still is only a shadow of the double-digit inflation that ravaged the economy in recent years.

One factor in the slowdown of the cost-of-living spiral is the trend in labor costs. During the first quarter of this year, major collective-bargaining wage settlements averaged an actual decrease of 1.4 percent for the first contract year. (The primary reason: construction and steel industry contracts.) This was the first drop since the Labor Department began keeping such records 15 years ago. In the same quarter, unit labor costs went up only 0.8 percent, the smallest such increase in eight years.

The figures reflect a deep concern over job security that leads workers to be moderate in wage demands or even to accept pay cuts.

But as the recovery gathers momentum, there are signs of renewed labor militance. Workers at Chrysler Corporation want to renegotiate wages in view of their company's phenomenal success in pulling back from the brink of bankruptcy. Shipyard workers have gone on strike. Labor leaders everywhere are declaring that the time for restraint has passed.

The unions will not be serving their members, however, by pressing demands that contribute to a new inflationary spiral. The spiral would leave everyone worse off.

## The Twisted Concept Of Tax Expenditures

From an elected official's standpoint, the ideal tax increase raises the maximum revenue with minimum protest from those paying it.

For that reason, Congress keeps returning to the concept of "tax expenditures" as a potential source of substantial new revenues.

The tax expenditure rationale is that taxpayer deductions, exemptions and credits actually represent a cost to the federal treasury. If tax-

payers could not deduct interest on home mortgages, for example, the government would collect another \$28 billion a year. Abolishing deductibility of state and local taxes would bring in another \$22 billion.

By collecting that money, the tax expenditure philosophy holds, the government would simply be recapturing funds to which it was entitled in the first place. And taxpayers would have no right to complain.

Despite the use of the term tax expenditure in statutory law, the line of reasoning it represents is fallacious. It assumes that the government is entitled to 100 percent of every income and that whatever individuals keep is through congressional sufferance. That view is unacceptable in a free society.

Congress should continue to review tax laws for fairness and effectiveness. But responsible members should be prepared to block any attempt to use legitimate reviews as an excuse to raise taxes under the guise of curbing so-called tax expenditures.

## Competition Is The Best Protection

Even the most avid proponents of domestic content legislation must now admit they have no case.

Their bill would require specified percentages of U.S. parts and labor in each car sold in this country. The requirement could exceed 90 percent in some cases.

The domestic content campaign was launched to shield American-made cars from foreign competition at a time when the U.S. auto industry was being battered by the recession and high interest rates and sales were plummeting.

Since then, the industry has undergone a dramatic turnaround. The recovery came not behind a wall of government protection but through head-on competition in the marketplace.

The campaign for domestic content legislation was based on the argument that the U.S. automobile industry would not recover unless Big Brother beat up the competition. The present state of the industry demonstrates the fallacy of that argument. □



Warning: The Surgeon General Has Determined  
That Cigarette Smoking Is Dangerous to Your Health.

SOFT PACK 100's FILTER, MENTHOL: 2 mg. "tar", 0.2 mg. nicotine  
av. per cigarette by FTC method.

Competitive tar levels reflect either the Dec. '81 FTC Report or FTC method.

NOW. THE LOWEST OF ALL BRANDS.



They're all after us.

NOW

THE LOWEST

CONFIRMED BY THE LATEST U.S. GOV'T. REPORT ON TAR





# WHAT TO TELL YOUR ACCOUNTANT ABOUT A RAM TOUGH DODGE VAN.

**First of all, tell him over 92%\* of all Dodge trucks built in the last ten years are still getting the job done.**

Ram Tough is not just an empty term. It describes the sort of enduring van design that means a great deal to those who mind the company treasury. But Dodge doesn't stop there. We offer a number of advantages with price appeal to those looking for maximum transportation value.

## THE PAYLOAD STORY.

You can order more than a dozen payload packages—up to 4,680 pounds—with a choice of three body lengths, including the industry's longest cargo area: 190.2 inches.

This means you can count on a Ram Tough van that's just right for your operation without paying more or getting less than your needs require.

## IT BEHAVES AT THE PUMP.

The heart of the Dodge Ram 150 and 250 is the standard 3.7 liter Slant Six. With over 20 years and 52 billion miles of built-in

reliability, this respected power plant offers outstanding economy when teamed with 4-speed over-drive manual transmission and 3.55 axle ratio.

**25** est. hwy. **19** EPA\*\* est. mpg.

## THE BODY STAYS IN SHAPE.

The Dodge Ram Van is built with an integral body/frame, precisely welded for solid durability. Dodge vans also benefit from 410 square feet of galvanized steel (more than Ford or Chevy) strategically placed to resist

rust. They also undergo a 100% electrocoating priming process to fight corrosion even more.



## IT KEEPS THE HELP HAPPY.

Dodge offers the widest standard door opening in its class...more than Ford or Chevy. Easy loading pays off plenty over the long haul with those who make the deliveries. It also means more flexible load capability...more efficient and economical delivery scheduling.

## IT STANDS UP TO COMPARISON.

A Dodge Long Range Ram Van invites comparison. At \$7,367†, it's loaded with standard features

the competition charges extra for...like 4-speed manual over-drive transmission, tinted glass, a 36-gallon fuel tank and full wheel covers.

To the person concerned with the bottom line, Dodge qualifies as a leader. And likes to prove it. So why not see your Dodge truck dealer soon. And take your accountant with you.

Dodge Trucks are Ram Tough.

\*Latest information available at time of printing. Based on R. L. Polk registrations through 7/1/81.

\*\*Use EPA est. mpg for comparison. Your mileage may vary depending on speed, distance, and weather. Actual hwy. mileage will probably be less. CA ests. lower.

†Base list price. Title, taxes, destination charges extra. Pictured vehicle is equipped with optional radio, which is extra.

